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The ethical criteria apparently assumed as valid by various economic theories of wages

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THE ETHICAL CRITERIA

APPARENTLY ASSUMED AS VALID

BY VARIOUS ECONOMIC THEORIES OF WAGES

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INTRODUCTION

It is eminently logical that the bare first word of this essay should be as to the philosophical motive that makes it appear interesting and fruitful. If we let two circles represent, respectively, the fields of ethics and economics, it seems probable that they will somehow intersect, providing an area common to both. It is this presumptive borderland of ethics and economics that we intend to study under conditions of restricted method and scope. It should be confessed at once that our efforts will be necessarily and rigorously theoretical: our essay is one of partial clarification of the ethical character of certain economic theories of wages. It is probably unnecessary here to defend the "abstract" nature of these pages to readers thoroughly aware of the peculiar logical role of philosophy. In lectures on ethics at the University of California, Professor G. P. Adams frequently made an eloquent defense of "abstract" discourse against the common indictment of uselessness. We have no space for such an attempt here.

That ethical and economic theory are inter-related in some way should appear fairly probable after reflection on the objective data of the industrial process. For this process is a realm of conduct of buyers and sellers with their conventional and legal "rules of the game". Industrial life is somewhat peaceful at least; it is not mere chaotic warfare, and is obviously subject to some ethical control from within and above. Even extreme individualists would admit this and welcome, at least, legal protection of "life, liberty, property and the pursuit of happiness". But we intend to view the terms of exchange in the field of labor through the eyes of economic theorists and, at once, a unique logical dilemma arises. For, from the terms of our approach, we seek ethical meaning in economic theory, whereas economic theory, clearly in the textbook variety, decisively intends to exclude ethical meaning from its "descriptive" results.[1] By and large, the economist's statement runs that economics describes "facts"; that which "is", rather than that which "ought" to be. It is believed that we will discover that this claim to finality on this point is illusory in some respects which we intend to investigate. There is, indeed, no single voice as to the nature and scope of economic theory. P. T. Homan has eloquently analyzed some of the diversities of contemporary economic theory.[2] We will have developed evidence and reasons for agreeing with him as to the presence of conflicting views in profusion, at the close of our study.

It will be obvious to all that a study of comparatively brief proportions in a field so vast must carefully justify

1 Cf. F. R. Fairchild, E. S. Furniss and N. S. Buch, Elementary Economics, I, 8-11; Macmillan, 1930.

2 P. T. Homan, Contemporary Economic Thought.

its selections and treatment. But it would be needlessly tiresome and, in fact, is not desirable to review these problems _in vacuo_. Suffice to say that we shall view a few relations of employer and employee in terms of given theories of wages. These theories represent the work of outstanding economists of recent modern times.[1] But, since out interest is definitely ethical, anything like an adequate summary of these theories is out of the question, indeed would be an irrelevance in the premises. We shall, in fact, be attracted by any evidence of "preference" i.e. an express or implied judgment that such and such conduct with reference to labor contracts and relations is "good" or "bad". We greet the economist with this query: "Why" do you apparently prefer "this" conduct "as a part of" your economic theory of wages? We seek the economist's "own answer" to such a question. An elucidation of his answer on his own terms, will give us his apparent ethical criterion operative in the theory of wages in question. The theory of preferential causation applied in a given case must be brought into relief and empirically justified, according to the terms of the given economic theory. It is just here that the merit of our search will be on critical trial. Consequently, our theory of an economist's ethical criterion constitutes the "essential" exposition. The rest, in

[1] P. T. Homan, _Contemporary Economic Thought_. Cf. "Introductory".

some degree, is requisite preparation and scaffolding.

It is possible, then, for us to describe ethical criteria which apparently influence various wage theories, without entering into a maze of economic technicalities. We should stress this point. We seek wage theory evidence of ethical criteria. Only that portion of a wage theory prerequisite to a development of our ethical result is pertinent. We can not, therefore, be criticized for failure to summarize completely an economic theory. Such an extended exposition would be dislocated and irrelevant where purely ethical results are sought.

Our "descriptive" attitude means that this essay is strictly preliminary to certain far-reaching and critical interests. This position, however, need not detain us. The meaning is simply that this paper stops short of broader constructive possibilities for purposes of clearly isolating ethical criteria in the given wage field. In passing, we may allude to these larger problems by saying that they include immanent and extrinsic criticism of the ethical criteria found, in terms of some unifying standard; and, in addition, a change of venue from economic theory to the actual industrial world, for purposes of revising ethical-economic theory _de novo_. We can sum up the limits of this essay from the content of this paragraph, by denominating our inquiry a phase of possible prolegomena to the evolution of an ethical criterion adequate to certain economic problems. In

J. A. Hobson's recent book Economics and Ethics, we have an excellent example of these larger ethical issues close to the industrial field handled in masterly fashion.

The ethical criteria we seek make an abstract characterization of them otiose; but it is conducive to clear orientation rapidly to review a few ethical possibilities. It is not likely that we will find resort to a supernatural ethical criterion in contemporary economic theory. In early political economy the contrary expectancy was in order; for, then, church and state were warp and woof of a loosely organic assemblage of considerations bearing on "wealth".[1] The rise of economic science is commonly said to have been motivated in no small degree by the forceful reaction of "business" to the interferences of political and ecclesiastical powers. The assertion is widely repeated that early classical economic theory tacitly defended the evolving needs of adolescent industry, no longer loyal to extraneous interests. This same thought may be expressed in another way by saying that pure deductive economics, with its bundle of characteristic assumptions, was a brilliant defense of the competitive status quo and, at once, a positive philosophy or creed of the collectivistic advantages of "every man for himself" where property, industry, purchases and sales are concerned. The isolation sought by individualistic man-

[1] Cf. Adam Smith, The Wealth of Nations, 1776.

ufacturers of early English industry was probably reflected in the method of deductive isolation of their theorists. At least the literature tending to this conclusion is large.[1] But there are far-reaching problems here that do not concern us. The problems are set within those of the general rise of science. And though, to be sure, self-conscious business leaders wanted a "hands off" argument in impressive terms, the urge towards "science" in social studies, as evidenced by the early Physiocrats, probably would have strained towards "immutable natural law" as a fundamental scientific desideratum. And, more to the immediate position that transcendental ethics is not likely to be discovered in contemporary economic thought, this trend to "immutable natural law" would perhaps, of itself, press the analogy to physical sciences, by delimiting the scope of economics to the measureable monetary terms of exchange. Whether or not these aside reflections will be fully granted, the current "climate" of opinion in theoretical economic circles is apparently non-supernatural and decidedly relativistic. And this leads to a fairly sound abstract expectancy as to the nature of ethical criteria in wage theories. So sweeping, indeed, has been the modern current of relativism that we are very likely frequently to meet the tacit view that an "absolute" is ridiculous in the premises. From this standpoint a prob-

[1] Cf. J. A. Hobson, "The Rise of Economic Science", _Economics and Ethics_; also P. T. Homan, _ibid_; "Introductory".

lem sets "relations" for (ethical) inquiry; and the ethical criterion will be a function (in some sense) of the "relational context".

We are led, then, to this thought, that we may abstractly expect to discover species of ethical relativism in the wage theories we study. This short development will do for our purposes at present. It sums up that "absolute" criteria, in a transcendental sense, are, abstractly considered, unlikely; and that, on the other hand, some form of ethical relativism is a likely discovery. In addition, we must be on our guard (assuming the soundness of our expectancy) to differentiate degrees and kinds of "relativism", for where the given brute data are widely treated as "really" relative, nothing illuminating is said by crying "relativism". It probably is too trivial to remind the reader that these thoughts are in no sense a defense of the writer's ethical position; they are invoked solely in abstract preparation for a relevant expository medium of the central issues of this essay.[1]

We turn, then, within our abstract expectancy of ethical relativisms, in another direction for a moment. We may roughly call the present word a hint of the "ins and outs" dichotomy, explained below; or, if "isms" be permitted, we

[1] The possibility of an ethical "absolute" within experience may be granted. This possible alternate to supernaturalism and relativism does not, I believe, invalidate the terms of expectancy, stated above, as to the ethical criteria likely to be found in wage theory.

refer to "ethical objectivism" and "ethical subjectivism" as broad divergencies of standpoint. Here, leaning in expectancy is largely presumptious on abstract terms. Professor W. P. Montague has used a simplified exposition in terms of "temperamental" impulse to "look in" or "look out" for final criteria of conduct.[1] Whether or not "temperament" determines the locale envisaged as the seat of final ethical authority, we may reasonably expect some economists to "draw in" ideals from somewhere "out there" and, diametrically opposed, we may reasonably expect some economists to "draw up" ideals from "within". The vagueness of this abstract expectancy may be readily admitted and the matter dropped. In hasty defense, we may say that it has seemed worth while to hint that an economist may be expected to add "something" out of his deeper, unique slant on life, his "personal equation" if you will, which it would be particularly interesting to detect. Perforce, our narrowed data of wage theory may largely thwart this interest in this essay, except on very tenuous grounds. In sum, our expectancy of ethical relativism may, with uncertain chance, turn towards "psychologism" or rigorous "objectivism", but, more likely, perhaps, to "compromise".

Finally, the ethical criteria found may, with reasonable abstract possibility, be irreducible, in large part, along the lines thrown out above. That is to say, we may

[1] W. P. Montague, Seminar in Cosmology, University of California, Spring of 1928.

expect, speaking out of our logical vacuum, an apparently simple and clear-cut standard of reference, say in terms of "common sense", "custom", "legality", "help social improvement", "healthy human interests", "public welfare" etc. etc. Indeed these cases may be most frequent and will, when before us, offer tremendous difficulty, for the "simplicity" is only apparent, and the difficulties of characterizing the effective ethical criteria consequently great. It will be too easy to accept an easy phrase of vague "principle" as an ethical criterion. We will need to probe well with our relevant theory of preferential causation, before we conclude that all has been said that might be said on the evidence.

At the same time, adequate rendering of the ethical criterion given in the wage theory evidence is all we set out to do. Assuming our task complete, any inherent inadequacy of the criterion is no present concern of ours. If conduct is truly preferred, apparently, by reference to a standard taken as authoritative, that standard, however "simple", is the ethical criterion for our exposition.

Furthermore, the terms of wage theory may, in many cases, apparently exclude all standards of conduct, except those implicit in the tendencies of economic "laws" that are laid down. Here are challenging problems, for a bald *tour de force* that asserts an economic "law" *is* an ethical criterion, is unallowable. A sound theory of preferential causation, indeed, may meet cases under the restrained conditions of our data, with reference to which wise discretion will compel the conclusion that no "ethical" criterion is discernible. But, since the terms of economic theories of wages must include human (exchange) conduct, our close scrutiny to discover ethical meaning, if possible, is justified. For, it seems reasonable to suppose that theories of wage conduct contain (at least) implicit ethical meaning. Whether the entire contexts of wage theories are involved in ethical meaning may well be left an open quention for the present. On the other hand, we do not suppose that wage conduct overlaps more than a significant part of the whole realm of ethical conduct. We do seek, in a word, the probable common borderland of the "is" and the "ought" in wage theories, where facts are truly normative, in an "ethical" sense, as displayed by economists.

We can do no more than pause for a moment to make a few comments concerning the contemporary phase of the rise of economic "science". The tendency we shall be particularly interested in pointing out is that towards "induction". To do more would throw our introduction out of proportion; to do less would fail to provide the suggestion of a proper setting.

Deductive economics is said to have achieved its apex with Ricardo, after a rapid rise from the great work of Adam

Smith in 1776.[1] A turning point is then noted by some economic historians, along the general philosophical current of "subjectivism". The trend of interest for us, however, is as follows. Early economics was perhaps organic in a "flabby" sense. By rigid insistence on a set of postulates e.g. property, free competition, (perfect mobility of capital and labor), the "economic" man; and by equally rigorous use of the deductive method, a body of economic theory was built up which achieved almost adoration from economists, business men, and cooperative governmental officials. This organon of "laws" apparently fitted the industrial needs of the times for an aggressive, profit-seeking, ambitious, "selfish" fraternity and, more important, was sustained by the broad evidence of social welfare that laissez faire "caused". But change in economic, social and legal ways, as well as broadened views of human nature, resulted in attacks on classical economics from a variety of fronts. Some of these attacks were violent ones by literary men, such as Carlyle and Ruskin. Some challenges were political and social in a revolutionary sense. Karl Marx, an eminent example, used the deductive method based on novel "self-evident" principles. Then again, a new interest in changing corporate facts and tendencies, among others, resulted in cautious and

[1] Cf. in support of the general standpoint of the following paragraph: P. T. Homan and J. A. Hobson, ibid.; J. N. Keynes, Scope and Method of Political Economy; T. Veblen, The Place of Science in Modern Civilization.

detailed revisions by economists. Take, for example, the "wage fund" theory, which was gradually picked to pieces by the general run of economists. This theory, in broad terms, states that there is a "fund" set aside by capitalists for wages, a hypothetically tagged supply of "capital" reserved for payments to labor. This "fund" is the capitalist's evidence of foresight and self-denial, his functional service to labor. Wages are pro-rata parts of the "fund", an assumed "constant" of the industrial system. The criticism of this deductive theory proceeds in gneral, in terms of its distance from the facts. For example, in passing, the "fund" is a mythical entity, real "causes" do not unambiguously determine it; then, again, the strength of bargaining power held by an employer lead to doubts as to the justice, and validity, of this "rationalization" of his "subsistence" payments. The contrasts of rich and poor lead to searches for effective measures of reform, and adequate "real" reasons. The purport of these remarks is neither to explain nor criticize the "wage fund" theory but to illustrate, in the field of wages, a general trend in the rise of economic "science" of interest for our purposes. This trend is towards "induction" as a method of investigation in economics and away from the unrealities of "pure" theory.

P. T. Homan's remarks sum up that the present state of economic "science" is chaotic when compared with the relative unity of method and scope of the physical sciences.[1]

[1] P. T. Homan, Contemporary Economic Thought, 10-13.

It is interesting to review rapidly the economists he considers, in the light of the tendencies to induction we are suggesting. J. A. Hobson leans heavily towards inductive studies with a pronounced "organic" emphasis. A. C. Pigou of England and J. B. Clark of the United States are outstanding exponents of the deductive method, tempered by "qualitative" (Pigou) and "dynamic" (Clark) leanings. Then, a prominent and wide school of statistical economists led by W. C. Mitchell, make specialized monographs and schedules, evidencing little, if any, interest in deductive theory of a universal sort. The statisticians have broken away, largely, from effective loyalty to classical theory. The deductivists, however, hark back to their master, Alfred Marshall, who broadened classical theory with fresh inductive and human insight. Much of the deductivist's work is defensive against the opposed deductions of Karl Marx. Thorstein Veblen has been a powerful factor as satirical critic of deductive method, in alien terms of the "instinctive" source of ends and worth. He has provided elaborate and widely versatile studies of the growth of economic institutions, read both by the implied light of the "pure" ineptitude of classical economists, and the actual conflicts of "business" and "welfare" interests. According to P. T. Homan, the diversity of economic views is almost legion, a disconcerting, purely personal flavor being caste over the work of each economic "scientist".

This sketch of strong inductive movements, even in the defensive ranks of classical offspring, must suffice, in terms of our recognition of wide confusions that promise a variety of ethical criteria in wage theories, "if", indeed, they are to be found there at all.

We may, then, close our introduction with this word in summary. We will select fruitful wage theory illustrations for our purposes; these may be called "ethical" wage problems. These can not be laid out abstractly for they depend, in large part, on the positions held by the economists studied as to the method and scope of economics. These positions vary widely, consequently a wide variety of wage problems necessarily underly our selections of illustrations. As said above, we will be attracted by those partial phases of wage theories that promise most satisfactory play, in a given case, to our adaptive theory of preferential causation. For the critical burden of our essay turns on a fair rendering of <u>ethical criteria</u> apparently assumed as valid by various economic theories of wages.

This scheme of inquiry results in a necessary expository plan. Our essay is a series of personal studies of variant ethical points of view based on the actual contexts of wage theories. Prominent economists must be allowed, first, to speak frequently for themselves. Representative direct quotation is therefore a virtue in this first part of each study which demands a hearing of economists on their own terms. The concluding section of each study will have two phases. First, the textual evidence will be reviewed in our own terms of preferential causation in order to isolate the operative ethical criterion in the textual premises. Secondly, a comparison and contrast of discovered ethical criteria will be made solely as a means of further differentiation of the criterion found; this treatment will reveal an essential continuity in our essay based upon its consistent selection of wage theories and its equally persistent isolation of the ethical criteria apparently assumed as valid there. In a word we may sum this up by saying that each personal study is 1. the brief but pointed presentation of an economist's views in his own wage theory terms; 2. a concluding theory of preferential causation, close to the textual evidence in standpoint, but in our own interpretative language; and 3. an exposition of apparent similarities and contrasts of the several ethical studies, in order to differentiate the isolated ethical criterion.

Problems of contrast and comparison, just mentioned, determine the following order of study of economists. J. A. Hobson faces relevant problems squarely with an explicit ethical emphasis. J. B. Clark's early work bears a close resemblance to Hobson's standpoint; his later deductive analysis marks a crucial transition to an antithetical position. T. Veblen's scientific stand opposes Clark's view of the character of scientific economics and is complementary to Hobson's position. W. C. Mitchell owes a great deal to

Veblen and adds a significant statistical character to his treatment. A. C. Pigou retrenches Clark's mature position with considerable awareness of opposing considerations. A. Marshall, Pigou's acknowledged authority, displays an ethical liberalism which is most interesting at this juncture. Finally, K. Marx analyzes familiar issues on radically different basic assumptions.

I

J. A. HOBSON

It is the purpose of this section to bring into relief the ethical criterion operative in the wage theories of J.A. Hobson. We will consider a few of his representative books severally, reserving comparisons to our concluding remarks.

The wage discussions in Economics and Ethics revolve around two problems: 1. the nature of the wage bargain and 2. the adjustment of wages in the interests of industrial peace. These discussions, to use Hobson's term, are "practical" i.e. they stay close to the actual industrial world. They are, therefore, not to be classed with the usual type of wage theory. Indeed, one important thread of their meaning is that deductive wage theory is inadequate to the "organic" needs of the industrial process. We will give a brief exposition of Hobson's position as to the above two problems, after certain prefatory concerns; throughout we will mainly develop the salient points of his "organic welfare" criterion.

Hobson states his ethical criterion for practical economics explicitly and at considerable length. It might be objected that Hobson's emphasis on "practice" throws his criterion out of court in a discussion that lays claim to study wage "theory". This objection is not valid. Hobson's stress on the practical nature of his work is due to his unique view as to the method and scope of economics. He espouses a "behaviouristic" economics that reviews the results of statistical economics in the interest of "organic welfare" i.e. the social good.

There is no need to "read in" an ethical criterion into Hobson's writings. Since our inquiry promised some difficulties in deciding just what was the ethical criterion present in a chosen wage theory we should admit at once that no such difficulty, due to failure to write on the problem, is present in the work before us. Here our difficulty is one of fair condensation of a full and direct treatment of the nature of an ethical criterion in its relation to "practical" wage problems.

There are, then, good reasons for facing the views of Hobson first. He has long emphasized the close relationship of economics to ethics. The major problems of economics are problems of control for him; and his view favors far-reaching "organic" direction rather than "detailed" direction. Traditionally, and largely even at present, each business unit stands on its own financial feet. No wonder that economists have built up theory which presupposes the rigid facts of private property and sharp competition. We begin to see why Hobson is so "practical", for he desires certain reforms of actual control of the economic system. He is not content with taking things as they are; he desires to provide an ethical tool to guide remodeling of economic practices. All of this sketches reasons for entering the door of wage theory that disdains ethics, through the evangelical brilliance of Hobson's work. Well-trained in economic theory, this prolific economist has held the torch of ethics up to economics for years.

What does Hobson mean by his "organic welfare" criterion? There is no doubt about the close relationship of this criterion to economics. It is a most thoroughly articulated ethical criterion, adjusted to the problems of economics. Hobson regards the following words as expressive of the essence of his ethical criterion when analyzed for its own sake:

> If nature makes so much <u>nisus</u> (directive activity) towards the preservation and growth of a species, and if social cooperation plays the distinctive part it seems to do in human survival, then it may be argued that the highest value attaches to the conduct and the emotions which sustain society in the elaborate structure it has attained, and assist it to further useful modes of cooperation.[1]

We shall turn now to the first of the wage problems stated above, in the interest of clarifying this ethical criterion as it operates in Hobson's treatment of wage issues.

The argument concerning the nature of the wage bargain is part of a much larger view that we must weave into the picture. This larger view is a famous Hobsonian viewpoint that led an American committee of economists to choose him to write a textbook which "introduces the student to the

[1] J. A. Hobson, <u>Economics and Ethics</u>, 73.

subject of economics from the standpoint of ethical values".[1] The book we are discussing is the outcome and was invited by economists who believe economics and ethics are closely inter-related. For years our author has tied his discursive, and certainly voluminous, writings together on the theme of the pervasive presence in our economic system of "unearned increments". The term derives from its frequent application to land rents but in Hobson's hands becomes an ubiquitous tool of research, criticism and reform. With zeal and insight Hobson persistently points to "forced gains" that arise in unequal bargaining situations. According to this stand, almost all bargains are between unequals, one side being possessed of relatively stronger financial strength. Coupled with this analysis and designation of the class "surplus" (unearned increment) that our economic system makes possible is a program of centralized political reform and more equitable distribution of income e.g. wages. The "surplus" should be taxed or diverted in better individual outlays for enhancement of "organic" values. Since these unearned increments are excess rewards from a functional standpoint and are made possible by a given social (exchange) situation, society can claim these ineffective amounts for public uses or for more equitable distribution, without destroying sound incentives to the proper working of the industrial system.

1 J. A. Hobson, Economics and Ethics, preface.

We already noted that the bulk of Hobson's treatment is directly "practical", that is, it is concerned with viewing the industrial process inductively rather than through the terms of classical economic theory. This position by a professional economist deserves re-emphasis.

This approach is prophetic of a revised economic theory when qualitative principles shall somewhat subdue the quantitative technique so narrowly followed. Hobson wavers between calling his organic analysis "economics" and "economic art". With the professed quantitative standards of economists clearly before him he admits that "economists, as such, can not interpret their values in terms of human value".[1] The transition from money values to human values, on this view, is well nigh impossible in terms of the problems of measurement set by economists "as such". If economists insist that their problems and theories are exclusively quantitative, then their "application" is "economic art". This "application" must, without doubt, review the quantitative theories from the wider focus of human values and, in doing so, develop a revised theory which might just as well be called another level of economics. Perhaps this practical level of study should be qualified as "behaviouristic". Speaking close to labor interests Hobson strikes deeply into his meaning of "organic welfare" in the following passage.

[1] J. A. Hobson, Economics and Ethics, 456.

> The contribution of a behaviouristic economics to this civilizing process will consist in developing a technique and organization which will continually reduce human costs and increase human utility of economic goods and services, thus liberating an ever larger proportion of the growing energies of a better natured and better nurtured humanity for non-economic activities and enjoyments.[1]

At least as much general background as we have given is necessary in order to appreciate better the following analysis as to the nature of the wage bargain.

The principle of organic welfare that is tested in wage problems is the Saint Simonian maxim: "From each according to his powers, to each according to his needs".[2] The analysis contrasts present conditions with a way out.

The "normal" terms of economic equilibrium, zealously sought by deductive marginal theorists, are put to a crucial test in the wage situation. Non-competing groups are too patent a challenge to the deductive postulate of "perfect mobility". This recognition is in fact forced on the attention of marginal economists, so that questions of "justice" supplement "pure" wage theories in interesting ways. Whether or not other economists enter forbidden ethical lands or not, Hobson resolutely regards the bargaining situation (like other economic facts) from the side of human valuation. The following argument, therefore, runs in terms, in part, at least, of the "ethical" inadequacy of deductive wage theories, which assume perfect individualism and compe-

[1] J. A. Hobson, Economics and Ethics, 456.

[2] Ibid., 220.

tition.

Hobson sees the present conditions of bargaining as a "mechanism of markets" which "works by a conflict of forces".[1] As to positive remodeling of the market situation, a true ethics of bargaining should control markets as "an equitable instrument of cooperation for the economic welfare of the community".[2] The meaning here is that it is not enough to analyze wage markets as a "mechanism"; behaviouristic economics does more in pursuit of decisive social improvement.

The present status of the worker with reference to his wage-contract should be grasped first. Then, problems of a new order of control and direction of economic welfare should be faced. As we look at present conditions we should ask relevant questions in the interest of "organic welfare". Is payment made according to needs? Is work allocated according to powers?

At present the worker is "forced" to sell his labor-power continuously in order to live. This is an "urgent compulsion" upon which his very life depends.[3] The employer's position is radically different, for he is in no immediate hurry as to any wage bargain. His criteria are narrowly financial. The wage bargain is, therefore, heavily

1 J. A. Hobson, Economics and Ethics, 2-3.

2 Ibid., 3.

3 Ibid., 172-180.

weighted in favor of the buyer. Of course, in terms superficial to the vital problem here presented, the capitalist, too, must finally purchase "some" labor for his chosen business venture. But in the isolated play of wage agreements the employer has the whip hand; he is not pressed by anything like the vital eagerness to buy labor-power as the worker is bound to sell it. The significant point is, then, that the balance of power (and injury) in the actual labor markets of today is very heavily weighted in favor of the employer. The "goods" which a worker delivers are, in effect, his "whole body and soul". He is compelled to sell his labor-power without delay and the capitalist is fully aware of this fact, and notably takes full advantage of his strong position. That an unearned increment or surplus accrues to employers as a result is indubitable. Miserably low wages of women and children have been substantially raised in certain cases because of organized bargaining power or legal devices; the employers easily "stand" these increases from the financial standpoint. They simply draw from hitherto enormous "surpluses" ie. huge bargaining "forced" gains.

The whole flavor of this argument reveals that ethical and practical questions are paramount. For Hobson, wage facts are normative. Economics is a "part" of ethics. Its major problems are those of "control" in the direction of "organic" welfare. Apropos of the wage contract Hobson writes the following.

> It is, perhaps, the heaviest ethical indictment of the economic system that in its operation it is bound to assume (a false assumption) that man is a purely economic being, and to ignore all or nearly all of the other human processes and values that are involved in the economic life.[1]

The force of this quotation is enhanced by the consideration of the risks and dangers to workers that cannot be compensated in money and that are commonly never given any attention except where gross and flagrant. The ethical-economic problem of labor is the progressive one of "organic" elimination of "sub-human" experiences in industry. Organic values should determine the "costs" of production and the "utilities" of consumption. The omission of a human treatment of "costs" is a serious failure of past economists.

We turn now to the second of the wage problems discussed by Hobson in this book i.e. their adjustment in the interest of industrial peace.

Conflicts between employers and employees are the order of the day in our economic system. The wage agreement is determined by balancing the powers of the parties to the contract. Men fight because the system operates on a fighting basis.

The problem that Hobson is discussing here arises when an arbitrator is called in to settle an industrial conflict concerning the amount of wages to be paid in a given business or trade. The insuperable difficulty in arbitration adjustments is that the arbitrator has no power to fix prices. Prices (or values in exchange) are "social determina-

[1] J. A. Hobson, Economics and Ethics, 210.

tions". An award to maintain wages at a standard rate is, therefore, impossible to carry out; and an award depending on profit and loss factors is of no use. The crux of the difficulty is that arbitrators can do nothing else, as things are, than take a "separatist" viewpoint, looking only at the affairs of one business or, at most, a trade. The only competent lever of control can be exercised by one possessing a national or inter-national authority. This central authority should then make decisions by reference to the welfare of the whole community. This calls for radical reforms. For, at present, the economic system puts each business on its separate financial feet; "every man for himself" is the systematic _modus vivendi_. This criterion of economic conduct is defective because very many of the factors determining business success or failure are beyond the control of the _entrepreneur_ and in the control of society. Complete autonomy of the single business "still stands as the first principle of economic government"; whereas, the social system of exchange to which the single business must adapt itself or fail, is largely beyond the control of the given business.

So far, this argument means that "detailed" arbitration is futile. What is the way out of this impassê to feasible organic action? The answer is postponed because the problem itself requires revision from the standpoint of "organic welfare".

The fundamental fact that the operations of the whole economic system go to determine what actual payments are attainable at any particular point within that system comes home in the discovery of various other conflicts of interest beside that between capital and labor in the business unit.[1] Here the argument rests upon the factors discussed as to the nature of the bargaining process. For these "larger conflicts" are, for example, between "exposed" and "sheltered" trades, or between "town" and "rural" industries. But these larger conflicts result in "forced gains" or "unearned surpluses" just as they do in a single wage agreement. The origin and social disposition of these far-reaching surpluses set the proper field for study. These studies are of crucial importance and must be kept up to date. Only through them can the evolving social structure be adjusted in terms of community powers and needs. So we return from a discussion of "arbitration" to the central theme i.e. the location and organic disposition of the "surplus". Better public uses of the surplus are matters for a central authority to investigate and engineer. Hobson concludes this discussion in the following words:

> This analysis of divergent interests might be carried into further detail. But enough has been said to indicate the large number and variety of group discords within the economic system, produced by a social determination of values and prices which is regulated by arrays of economic force and not by any principle of distributive justice or regard for human welfare.[2]

[1] J. A. Hobson, Economics and Ethics, 181. For Hobson, the present bargaining system determines the employer to take forced gains; the leveling of surplus is an *organic* problem.

[2] *Ibid.*, 184.

Economics and Ethics was written in 1929; in 1900 The Economics of Distribution was introduced in the following language.

> In particular, it claims to prove that all processes of bargaining and competition, by which prices are attained and the distribution of wealth achieved, are affected by certain elements of force which assign "forced gains" and other elements of "economic rent" to the buyers and sellers. There is thus established the existence of a large fund, partaking of the nature of those monopoly and differential rents, long ago recognized in the case of land, which furnish no stimulus to voluntary industrial energy, and which can be taken for public service by taxation without injury to industry.[1]

For Hobson, the existence of the surplus is a fact, for he readily admits that fact-finding, knowledge of present conditions or statistics, is the first investigative step, preliminary to problems of guidance and reform. Why does Hobson prefer one line of action rather than another with reference to the unearned gains that normally arise in unequal bargaining situations? The answer is tucked away in the above quotation in the term "public service". Now there is a sense in which any scientist, economist or otherwise, would grant that "welfare" is the end of his endeavors. It is probably true that all economists pay incidental homage to the "good" of society at some time in their writings. But it is necessary to emphasize that our inquiry is not on this level. For we are wondering whether or not theoretical economics does, as a matter of fact, make its theories without resort to express or implied ethical judgments. We get a clear answer from Hobson on this point. When economists

[1] J. A. Hobson, The Economics of Distribution, VI

go beyond painting a picture of things as they are they become students of economic guidance. As students of economic administration they posit "ends" of action. Sooner or later these plural ends must refer to some dominating idea of human value. Why exchange goods? Why exchange goods with certain motives rather than others? Exchange cannot be conceived without introducing at least two human beings. "It takes two to make a bargain" and economics studies bargaining conduct. The conflict that Hobson faces in the theoretical circles is also a conflict in the industrial world. It is a conflict of philosophies, of ethical criteria. On one side are arrayed _laissez-faire_ loyalists; on the other side are aligned those who see in varying ways that there are many problems of exchange so saturated with the public interest and responsibility that they demand solution from the position of society's power and needs. These two types of economic reasoning are in conflict in _The Economics of Distribution_, with Hobson clearly the antagonist of _laissez-faire._ Do _laissez-faire_ economists avoid ethics according to Hobson? Explicitly and formally, yes; implicitly and effectively, no. For example, consider the issue concerning the efficacy of trade-unions.[1] According to Hobson, Alfred Marshall when viewing the matter with practical sympathy (when off-guard as an economist, so to speak) tends to point out the helpfulness of trade-unions to workers. When he ap-

[1] J. A. Hobson, _The Economics of Distribution_, 221-226.

plies "economic reasoning", however, his answer is decisive: trade-unions interfere with free competition; free competition will (in the long run) lead to economic equilibrium; economic equilibrium means that the gains of wage-bargains have been divided equally; that each has received his "marginal net product", according to the equilibration of demand and supply. Hobson's reply meets the challenge on its technical grounds, namely on the great field of traditional economics: "the terms of exchange equilibrium". He reasons in Marshall's language of marginal analysis and accepts, tentatively, a cost (productivity) theory of price based on competing demand and supply.[1] He sounds orthodox until the determination of price at a point which distributes the gain of a bargain equally is assevered. Here is the weak spot in equilibrium analysis. A, buyer, has a maximum high and a minimum low price that his resources and his diversity of needs will allow. The price market itself sets the range, in part, within which A will "barter". B, seller, has a price range too; he will close the sale at any point within this range, striving, like A, to take all he can get. The upshot of the transaction is a matter of strength,--financial, strategical and what-not. This "system" of exchange is a virtual field of battle where unearned prizes follow might and cunning. These surplus gains are "differential" i.e. they depend on the relative strength of the given bar-

[1] J. A. Hobson, <u>The Economics of Distribution</u>, 93.

gainers.[1] Returning to the question of trade-unions, the present facts tend to leave workers in a weaker position than employers. The efficacy of a trade union cannot be decided in general terms but if, in a given case, says Hobson, organization of workers will tend to equate the respective bargaining powers, an equalization of gain is certainly more probable. But Hobson goes on, as he always does, to questions of the inherent defects of a balance-of-power system of exchange. Questions of economic adjustment will never be solved as long as "might makes right" in bargains; social guidance is called for, and this implies a new philosophy of government, new ethical criteria, new weighing of human values, new techniques of taxation, new criteria of wage payments etc.

Certain features of Hobson's ethical criterion should now be clear. It is progressive, relative, essentially objective. It is progressive in terms of the evolution of society and human responsibility for the direction of that advance to better fitness to survive. It is immersed in relations "as they are" up to a certain point. But when knowledge of relational facts as they are is reached, e.g. the existence of "surplus", he turns to problems of objective guidance of the economic system. The "good" is objective

[1] J. A. Hobson, The Economics of Distribution, 309. For Hobson, "graded" wage-powers are "differentials" in bargaining force on the side of labor.

social good which implies opportunity for subjective well-being. His ethical criterion is economic because that is his subject-matter. He is not blind to more unique values than the social, but these are beyond his economic province.

It has been said that "The end of all good government is to make government superfluous". May it be said that the end of economics is, though not, indeed, to render economic processes superfluous, at any rate continually to reduce the part they play in comparison with those "unbought graces of life", those free creative activities, in which production and consumption are fused in costless satisfactions".[1]

How does Hobson's ethical criterion influence his theory of unemployment? We will quote from The Economics of Unemployment, revised in 1931, with this question in mind. In Hobson's words the general thesis of this volume is as follows.

If, say, consumption could be maintained at three-fourths of the high war standard, and could be applied productively to enhance the future efficiency of the human instrument, instead of being applied destructively, it would seem that trade fluctuations might disappear, by a policy which would not merely avert unemployment (outside the minor requirements of economic elasticity), but would furnish the economic conditions for a continually increasing productivity, with a corresponding rise in the general standards of consumption.[2]

This thesis boils down to a search for the economic mean of spending and saving, of immediate satisfactions and postponed satisfactions, of consumable goods and capital goods. The central issue is an essay in equitable distribution, for the present system piles up "surplus" in the hands of the

[1] J. A. Hobson, Economics and Ethics, "Finis".

[2] J. A. Hobson, The Economics of Unemployment, 9.

rich who invest it in excessive outlays of capital or productive goods. The results are wasteful consumption, cut-throat competition, organized restriction of output, cyclical depressions etc.

If the surplus income of the rich which produces this congestion and these stoppages were absorbed, either by the increasing share of the workers, or by the needs and uses of an enlightened state, or by both, this economic disease would be remedied.[1]

The standard at stake is the order and progress of society. The core of the theory is more than "financial", it is human, organic, social, practical. To be sure, the facts disclose that an excessive part of national income goes into production goods i.e. new factories, machines etc. But, why? The system of exchange itself piles up surplus, automatically creating the extreme classes of rich and poor. Those who are most in need are unable to buy; those whose every desire is fully satisfied are able to buy almost without limit and therefore seek expanded ways of "investment". The remedy? Remove the surplus elements from large incomes. The remedy may be read as a trend in "natural" economic evolution or as a policy of statesmanship. Industrial peace, security and progress (the "real facts disclose") demand a drastic redistribution of the product of industry.

If State Socialism, or Guild Socialism, or Consumers' Cooperation, or any form of Communism, can achieve this better distribution, without unduly letting down production, we may look for salvation along any of these paths. But if, as I am disposed to believe, no people is prepared to launch in any wholesale way on any of these revolutions, some mixed policy of national ownership of prime monopolies, control of

[1] J. A. Hobson, The Economics of Unemployment, 10.

profits, prices and conditions of employment in other industries where some measure and degree of direct or indirect competition survives, with a limited period of free profitable enterprise as an incentive to new enterprises--the whole of this linked up by a tax system whereby society secures for beneficial public services the idle elements of income which do not nourish or evoke productive effort--this mixed policy adapted to the varying conditions in the world of industry will best achieve the better and more equal distribution and utilization of income that are required".[1]

Let us consider a detailed portion of this argument, bearing on the desirability of public works as an expedient in relieving unemployment.[2] The spirit and point of the whole discussion enter into every detail. Since public works would serve to distribute the surplus to unemployed labor who would buy consumption goods, it is a valid expedient in abnormal times. It is granted that these works are less efficient than normal productive activity, but the emergency makes this comparison irrelevant. The true comparison is between the non-economic status of idleness and some productivity and consequent purchasing power. The momentum of public works derives from taxes on idle elements of surplus capital, originating as functionless accumulations of unearned gains, and piling up inordinately at present through want of profitable investments. The weakness of credit inflation, protectionism, and price manipulation is that they side-step the simple human demands at stake and fail to provide purchasing power to the miserably poor. A revised ethical criterion that works from organic human

[1] J. A. Hobson, The Economics of Unemployment, 122-126.

[2] Ibid., 126.

needs to technical devices that satisfy felt needs is in order. Business and its theorists still postulate remedies on the assumption of financially competent units in free competition. The inevitable result of laissez-faire competition is not to give to each according to his needs nor to take from each according to his powers. The present unemployment crisis is a case in point. Economic statesmanship has a positive role to fill in equating purchasing power, by distributing a surplus that provides no necessary incentives to the proper working of the industrial system. Public works constitute an emergency device that tend towards this sound re-distribution.

> Those, however, who hold that the sound communal services thus rendered have immense direct and indirect results in more healthy, intelligent, mobile, enterprising labour can make a strong case for arguing that such public expenditure is amply justified, even in terms of an early increase of productivity.[1]

A very recent little booklet by Hobson condenses his essential viewpoint to "consumers' socialism"; it is entitled From Capitalism To Socialism and came off the press in 1932. The pivotal importance of the theory of surplus is undiminished. An unrevised capitalism contains the seeds of decay since it does not contain a government of industry that makes due public use "of the immense waste resources of the economic system".[2] Economic balance of production and

[1] J. A. Hobson, The Economics of Unemployment, 123.

[2] J. A. Hobson, From Capitalism to Socialism, 29.

consumption is the technical requirement, so that the ethical standards of "leisure, the first condition of a full life for a human being" may be satisfied for all. The scope of economic government is envisaged as a "world government" which controls the issues of the proper balance of work and leisure. This government should be "by genuine representation of the people" and not by the conservators of surplus.[1]

The true equilibrium for study is between saving and spending. Economists have notably specialized in the equilibrium of prices, reasoning according to the inter-actions of price, demand and supply. "But taking the saving process as a whole, the 'price law' is inoperative".[2] There is an "irrational factor" present that makes the readiness to supply new productive capital unpredictable. The same is true as to wages and labor. High wage rates are commonly accompanied by a restricted market in which they apply. The "tendency" of price-law to determine an increase in supply of workers by an increase in wages is therefore actually frustrated. Even assuming free mobility of labor the "law" fails to apply, for given standards of living are of predominant importance. And standards of living depend on quality factors in the population, falling birth rates, reduced child mortality, higher efficiency of labor etc. There is thus "no calculable relation between wages and supply" of

[1] J. A. Hobson, From Capitalism to Socialism, 52.

[2] Ibid., 30.

labor.[1] Higher wages, in some cases, mean less work. Summing this argument up, there is no quantitative relation between pay and productive output. Higher professional services are a case in point. "Chance" rather than "measured economic motives" plays the important part in actual bargains. How can "chance" be minimized except by conscious economic government of an extensive world of exchanges? How can a financial criterion orient these problems, when money is only a tool of exchange, and the true problems are organic ones of correlated production and consumption?

What are, then, the salient features of Hobson's ethical view? A true ethics of economics crystallizes all technical methods to the simple barter situation that involves all human beings. Economics is "human" economy of work in the interest of social welfare (and consequent individual satisfactions in leisure). The ethics of economics is the ethics of work-a-day affairs that points to routine community values, and beyond to the unique personal values that can only be nourished and advanced in a solicitous social medium. Economic anatomy is conceived with therapeutical intentions; the historical, statistical or theoretical interest is bound up with the revision of economic conduct in the light of organic values relevant at the time, so that mankind may survive with requisite well-being and happiness. Put another way, this ethical criterion is grounded upon an

[1] J. A. Hobson, From Capitalism to Socialism, 41.

analogy to biology rather than mechanics.[1] The maintainance and growth of the economic system is a key interest. At present our competitive exchange institution fosters waste, due to an inevitable creation of unproductive surplus. The lines of evolution laid down place objective social values in a central position as criteria of organized conservation and guidance. And, throughout, the social importance of a solicitous interest in individual needs is stressed.[2]--So far we have aimed to characterize Hobson's "organic welfare" criterion in wage analyses--an explicitly defined <u>ethical criterion</u>. This extended acknowledgement by a professional economist of the ethical interest (as such) within the terms of wage theory, may be properly called an exceptional case. The relatively high repute of Hobson as an economist makes his human standpoint a valuable "searchlight" for our purposes. With his human wage problems before us, we may well ask (and answer) the query: What, after all, is <u>an</u> ethical criterion in wage theory? In emphasizing that <u>concern for human values and welfare</u> marks <u>an</u> ethical criterion, we can also properly stress that it is not our purpose here to de-

[1] Hobson's mechanistic (<u>de facto</u>) analysis does not vitiate (for him) this interpretation of his <u>ethical criterion</u>. <u>Apparently</u>, he thoroughly repudiates the utilitarian ethical implications of traditional competitive analysis.

[2] To what extent, if any, Hobson's view is a contradictory compound of competitive price system economics and an organically controlled social economy is irrelevant here. Our task has been to record the ethical criterion <u>apparently assumed as valid</u> in his wage theory.

fine <u>the</u> ethical criterion for wage theory, but to establish a general basis of recognition of <u>any</u> ethical criterion that may be found in the more rigidly "technical" contexts of wage theories. Hobson's treatment from the human standpoint has provided some general earmarks or criteria of <u>any</u> ethical criterion in wage analyses.

Furthermore, it may safely be said that <u>economics for Hobson</u> pushes the importance of an explicitly articulated ethical criterion in wage theory to the center of attention. The study of his "organic welfare" criterion has therefore served as an excellent introduction to what follows. For if we discover references to "human values" (expressed or implied) in wage analyses, we are justified in defining these references as "ethical". Hobson has provided us with a survey of human interests in wage problems that raises difficulties for the economist who would avoid an "ethical" standard of human welfare by confining himself to "technical" wage problems. It requires a relevant theory of preferential causation, in the cases of some economists, in order to organize evidence and proof for the conclusion that an ethical criterion animates a given wage analysis. The "human" characteristics of these problems are of vital importance for our theory of preferential causation in hard cases. Unless the <u>human solicitude</u> of an economist is recognized as being an <u>ethical interest</u> (which presupposes an operative ethical criterion) there is little chance that our conclusions will be admitted by doubtful readers at critical

. But such a doubtful reader is at the same time de-
that Hobson's treatment is ethical, which is manifest-
trary to fact; no more deliberate and elaborate ethi-
uman) analysis by a professional economist can proba-
found.

or example, to anticipate a "hard" case, when accept-
f the status quo is implicit in mechanistic wage anal-
an investigation of the "ethical" (human) presupposi-
is called for. The crucial point, recalling the human
st of Hobson, is to see the "accepted" relations of
ge mechanics to the human characters and motives which
active principles of these exchanges. "If" the
st explicitly (and consistently) excludes all human
t by answering only one narrow question, viz. how the
e" runs, we would conclude that no ethical criterion
rectly" involved. But, in the light of the undoubted
e of central questions of human and social welfare,
d not properly stop there. For, though a narrow
s avowed by the economist in question, it probably is
lized. There may be resort, in the last analysis, to
rlying ethical standpoint i.e. assuming the validity
Wage analysis, "this" principle of wage payment
' apply on human grounds. If this immanent reference
n values or welfare is present, an ethical criterion
fently assumed as valid and is properly characterized
as fully as the evidence allows.

II

J.B. CLARK

The earlier work of J. B. Clark, The Philosophy of Wealth, contains a strong spirit of reform which makes it akin, at times, to the point of view we have just been considering. It originated as a series of articles for the New Englander, written when Clark was beginning his career (1875-85). These essays are critical of traditional economic theory, on the ground that it begins with narrow or false assumptions and therefore can arrive only at uncertain conclusions.

> The better elements of human nature were a forgotten factor in certain economic calculations; the man of the scientific formula was more mechanical and more selfish than the man of the actual world. A degraded conception of human nature vitiated the theory of the distribution of wealth. Economic science, in general, found no adequate place for the intellectual activities of men, and made no important use of the fact that society is an organism, to be treated as a unit in the discussion of many processes affecting wealth.[1]

As we shall see, the practical idealism of this early book is apparently minimized in later work. So radical is the shift of emphasis, indeed, it will almost seem that a different man writes at the later time. In the earlier work the dominating interest is clearly ethical. Throughout these essays we find an evangelical effort to find a place in economic theory "for the better motives of human nature". Competition, for example, is keenly criticized at times. In the later work "pure competition" is the rigid foundation of a "static" theory; and ethical interest is explicitly excluded. Our claim that ethical interest is a fundamental feature of the later work will require proof. P. T. Homan has given an interesting explanation of this shift of approach in terms of the movement of the 'eighties towards an abstract theory of distribution.[1] Clark's skill as a theorist of distribution won him fame in the general battle centering around the work of Karl Marx. Clark is usually quoted as the most eloquent of recent defenders of the "natural" justice of the competitive status quo. It is therefore important to allude to his almost radical attacks on competition in the earlier essays.

The Philosophy of Wealth, however, raises interpretative difficulties which call for brief introductory attention. There is eloquence of style, depth of penetration and sanity of practical idealism in the pages of these early essays which it would be ungrateful not to acclaim. They present a stimulating, refreshing flow of challenges to an order of industry and industrial theory conceived, at times, as in chaotic transition from a competitive to a cooperative scheme of operation. This deep, dynamic movement is strongly ethical. With striking lucidity these ponderous changes are poured into graceful sentences. But it is not surprising that a heterogenous lot of essays, evidencing such youthful vigor and practical reformatory zeal, should lack some coherence. One is constantly doubting whether he has

[1] P. T. Homan, Contemporary Economic Thought, 34-40.

hit on Clark's essential viewpoint, till the conclusion finally dawns that there are inherent contradictions that defy verbal resolution. At the same time, the suspicion is ineradicable that there is a unity of "animal faith" underlying expressed diversity. Immersed in emotional fervor, the book precipitates many fundamental doubts, such as whether Clark is essentially defending or attacking competition, whether his ethical criterion is subjective moral sense or objective moral custom etc. Text could be quoted to fit the predilection of the quoter; dogmatism can only be achieved by narrowness of reading and reaction. Then, too, the net impression is equally disconcerting; one is painfully aware that his imputations are slippery. Competition of alternative views for designation as Clark's position arises because they are severally espoused with an air of finality. We have sufficiently created an appropriate atmosphere of skating on thin ice to warrant a courageous plunge.

Clark calls the ethical criterion operative in economic conduct the "sense of right".

> In the last analysis the sense of right in men is a supreme motive, in the market as elsewhere. It is the centripetal force in economic society. Its action is not an occasional or 'disturbing' influence; it is constant, and increases with time and civilization".[1]

It is our task to define the meaning of this economic ethical criterion as understood by Clark. This conception is an

[1] J. B. Clark, The Philosophy of Wealth, 48.

intimate part of his qualified, though severe, critique of competition for "competition at best exists by sufferance, and the power that tolerates and controls it is moral".[1]

On the other hand, competition is an energetic force, which, in self-assertive fashion, gets things done. It is a "demon" if unrestrained by moral force, but "society does not and will not completely abandon the competitive principle; it is still needed as an agent of distribution, and it is the sole means on which we can rely for the securing of a large product to distribute".[2] At the same time there are many passages which indicate that competition is outmoded, but the subtle flavor throughout substantially vindicates the position just stated. Cooperation is decisively conceived as a diametrically opposed method of economic salvation, and, at the same time, the conservator of the "moral sense" that checks competition. The seat of this "moral sovereignty" is elusive. It is a "teleogic principle in society"; it is a "spirit of justice" in man; it is a "supreme moral court".[3] But the net impression is that the principle of cooperation itself is the ethical criterion implicitly intended throughout. "Cooperation is the antithesis of competition; wherever it exists the competitive

[1] J. B. Clark, <u>The Philosophy of Wealth</u>, 48.

[2] <u>Ibid</u>., 208.

[3] <u>Ibid</u>., 208-20.

struggle is held, to some extent, in abeyance".[1]

Turning, now, to our particular interest in wages we will expect to see the dualism of cooperation and competition at work. We conceive that Clark's youthful ethical criterion is defined for our purposes if the status of the principle of cooperation in his wage theory is brought into relief. Clark accepts Henry George's theory as to the origin of wages. "He has proved that they come, not from capital, but from products".[2] Then the problem for Clark becomes: "What is the real source of the value which rewards the laborer?" And the answer is: "It is the volume of products which sets limits to the amount of wages". What, then, should determine the worker's pay? "The workman's share is the value created by the industry in which he participates".[3] But, argues Clark, the relations of employer and employee are based upon a bargain. If competition is in exclusive control "a minimum of justice results where brute forces are unequal, and moral forces wanting".[4] The ethico-economic rule of wage competition, "Every man for himself", increases the marked bargaining disadvantage of the worker in the competitive field unless trade-unions come to his assistance. The modern corporate trend is, indeed, manifest

[1] J. B. Clark, The Philosophy of Wealth, 208.

[2] Ibid., 126.

[3] Ibid., 130.

[4] Ibid., 130.

on both sides of the wage bargain. Thus does the principle of cooperation come into the situation at last, and a gradual obliteration of competition takes place. The movement here is towards the <u>solidarity</u> of capital and of labor, with consequent large-scale arbitration. This solidarity is a respective corporate amalgamation of "non-competing groups".

> The system of individualistic competition was a tolerated and regulated reign of force; solidarity, even in its present crude state, presents the beginnings of a reign of law.[1]

The ethical center of Clark's <u>early</u> wage theory is, then, the conflict of two principles: competition and cooperation. Cooperation, here, is the ethical criterion which, through corporate development, equalizes the balance of power of employer and employee, and finally, leads to conscious arbitrative adjustment on an organic social scale. Cooperation is truly implicit in competition because competition is suffered by society as a medium of distribution of the products of industry. Competition passes into partial abeyance when corporate organization of the wage bargaining factors naturally evolves in the struggle to balance their powers. Cooperation, then, becomes more explicit as the social teleology of the situation emerges in the organized means of adjustment; and as the perils of huge chaotic warfare become socially suicidal. Society is "egoistic", in the final analysis, and men are "altruistic", for men possess "enlightende reason" that society must be preserved at all costs.

[1] J. B. Clark, <u>The Philosophy of Wealth</u>, 148.

Thus is the Ricardian postulate of "selfish man" seen to be partial and defective. The "organic" criterion of cooperation is society's implicit sanction of competition, so long as it serves as a fairly peaceful method of dividing the product of industry in "the spirit of justice". Competition has no inherent certainty of endurance; there is, however, a pragmatic probability that human impulse to self-assertion and display, coupled with the social advantage of energizing economic conduct, will serve to maintain a residual acceptance of the competitive motives and processes.

The Philosophy of Wealth contains many conflicting leads, among them a marginal productivity analysis of wages. As it turned out this trend received predominant emphasis in later writings. Writing on The Possibility of a Scientific Law of Wages in 1888, Clark reveals the lines of advance of which he later became a recognized master. What place, if any, does the cooperative criterion find in this tentative formulation?

The changed level of inquiry is at once set, for "in a search for such a law our hope of success lies in making, at the outset, a study that is remorselessly theoretical".----- "A study that begins with the assumption of a theoretically perfect competition, and of an absolute mobility of labor and capital, may well end with a study of every obstacle that these movements encounter".[1]

[1] J. B. Clark, The Possibility of a Scientific law of Wages, 40

The central issue, then, is this: is the reward of labor, in the industry of the world, directly controlled by a permanent and distinguishable force? On no-rent land, Clark points out, a tiller gets what he produces. Throughout the industrial system there are similar "zones of indifference", territories within which it is of no importance to the employer whether the work be done or not. In these "margins of cultivation" the only requirement of employment is that the product of labor shall at least equal the actual wage. Here, claims Clark, we find the markets for surplus labor. Does the rate paid in these markets set the general standard of wages? The answer for Clark is this tentatively affirmative formula: "General wages tend to equal the actual product created by the last labor that is added to the social working force". But, he adds, "an increasing amount of labor applied to a fixed amount of pure capital yields a smaller and smaller rate of return".[1] Here are the tantative formulae upon which the possibility of a scientific law of wages must rest. There are, it appears, two relations here for study, the relation of wages to capital, and the relation of wages to products.

It is advisable, now, to draw some relevant implications. This cursory view of a marginal productivity theory of wages in the making should reveal one important point for our purposes: intrinsically it does not involve ethical

[1]J.B. Clark, The Possibility of a Scientific Law of Wages, 49.

questions, <u>except at the foundation</u>. It is assumed by Clark that a worker <u>should</u> get what he produces and that the <u>ethical validity</u> of this principle is clear. The expanded economic law established, for Clark, that in the realm of "pure" theory, (assuming "pure" competition) a worker does get what he produces. This marginal theory, therefore, shows the product of capital in its pure theoretical light and destroys "confusions" that identify the products of labor with those of capital. The least effective worker determines a level of product which defines the wages of all who may be <u>substituted or interchanged</u> in the industrial system. The "product" meant by Clark is a "virtual" product, which, assumes the free possibility of reorganization of <u>actual</u> tasks, as the quantity of labor moves up or down. Furthermore, the quantitative changes of capital likewise influence the product of labor <u>at the margin</u>, and so wages.

Enough has just been hastily suggested to raise the question as to whether the whole marginal analysis, considered as a tool of economic reasoning, has any ethical importance in Clark's eyes.

With the full statement of the law we should be able to estimate the indictment that socialism brings against the industrial system: "Wages rise, indeed, but not in proportion to the total increase of the income of society. The workman gets less than his pro-rata share".[1]

For Clark, then, the whole marginal edifice is to be a deductive system which refutes the deductive system of Karl

1 J. B. Clark, <u>The Possibility of a Scientific Law of Wages</u>, 59.

Marx. "We should know with the completion of our study of this law, whether it is true that wage earners anywhere get less than they actually produce". If they fail to get what they produce that is "robbery", "plunder".[1] To get what one produces is "justice", though Clark apparently fails to recognize that "justice" is an _ethical_ term. The broader references to cooperation here fade from view. "Pure ethics" is excluded. The theoretical mechanics by which "each gets an amount gauged by the product of his own final increment" is not (for Clark) an ethical problem, _yet the whole scheme of reasoning is a moral justification of the basic foundations of our competitive industrial system_. One thesis stands out: "Under perfect competition the reward of each is virtually its own actual product". The theoretical development of this thesis becomes Clark's major pre-occupation. The focus of his _ethical_ interest is to define, under limitations of method and scope, how each _does_ get what he produces. Thus, it appears, are ethical criterion and economic reasoning rolled into one, the ethical self-evident base being never avowed as ethical during the course of the marginal analysis. The system completed, however, "justice" is theoretically vindicated.

Eleven years after writing the monograph we have just studied, Clark issued _The Distribution Of Wealth_, which re-

[1] J. B. Clark, _The Possibility of a Scientific Law of Wages_. 60-61.

formulated the contents of several published articles on value, capital, interest, rent, wages and profits. The expressed purpose of this book was to show that the distribution of the income of society is controlled by a natural law. Furthermore, if this law worked without friction it would give to every agent of production the amount of wealth which that agent creates. With reference to labor this theory declares that rates of pay, assuming free competition, tend to equal the product that is separately traceable to that labor. The natural law of wages thus assigns to each worker what he has <u>specifically</u> produced. This theory assumes a "static" world and the "character of its activities" are assumed to cease. It is recognized that an actual society is "dynamic," but changes in wages tend to conform to a "normal" standard that theoretical analysis may disclose. "However stormy may be the ocean, there is an ideal level surface projecting itself through the waves, and the actual surface of the turbulent wager fluctuates about it".[1]

As stated above, the elaborated thesis that free competition tends to give to labor what labor creates is not ethical <u>according to Clark</u>. The "issue is one of pure fact"; but the "<u>motive</u>" of study is admittedly ethical.

> When a workman leaves the mill, carrying his pay in his pocket, the civil law guarantees to him what he thus takes away; but before he leaves the mill he is the rightful owner of a part of the wealth that the day's industry has brought forth. Does the economic law which, in some way that he

1 J. B. Clark, <u>Distribution of Wealth</u>, 2.

does not understand, determines what his pay shall be, make it to correspond with the amount of his portion of the days product, or does it force him to leave some of his rightful share behind him? A plan of living that should force men to leave in their employers' hands anything that by right of creation is theirs, would be an institutional robbery--a legally established violation of the principle on which property is supposed to rest.[1]

Though Clark interprets his "theoretical" interest in the competitive "plan of living" as "factual", it seems evident that he means much more than that. The regime of "property" may "force" a worker to give up what is his by "right of creation", thus committing an act of "institutional robbery". This "violation" is explicitly characterized as an undesirable plan of living. Clark here assumes a human (i.e. an ethical) interest and criterion, of essential importance to his economic theory. His chosen "plan of living" must satisfy his ethical demands in order to be acceptable to him.

In truth, Clark's analysis begins and ends with concern for the welfare of the laboring classes. The principle of justice assumed is that the worker should get all he produces; no other ethical principle is allowed to compete with this one, for "pure ethics" is beyond the scope of his study. If workers create a small amount of wealth and get the whole of it "they may not seek to revolutionize society". The sole problem (for Clark) is one of economic fact i.e. does "natural" distribution identify men's products and their gains? Clark's affirmative answer is that final (or specific) productivity governs wages. It will not promote our

[1] J. B. Clark, Distribution of Wealth, 6.

purposes to do more than summarize this theory briefly. Labor value is appraised at the margin i.e. at the theoretical point where the final unit of labor supply is engaged. The rate applied at the margin is the one that fixes wages. The rate of wages thus discovered applies to all industrial workers of the same average quality. The assumption of a theoretical series of workers of the same class is admittedly not an actual situation, but this does not vitiate the theoretical validity of the reasoning according to Clark. The marginal worker is the (theoretically) last one taken on, at a rate which just balances with his product. Any member of his capacity-class must accept the same wage rate since, assuming free competition, a reorganization of workers could place any one substitutable worker at the margin. Since the subtleties of this final (or specific) productivity theory of wages do not serve to clarify Clark's ethical interest, we shall proceed no further.

As brought out above, this wage theory is based upon an ethical postulate, which tends to become finally, in the theoretical terms, a law of wage distribution. For, the study is apparently oriented at its base, and carried on, according to an ethical standpoint, viz. <u>human welfare is protected and promoted if each worker gets all that he produces</u>. It seems obvious that this principle operates for Clark as an ethical criterion as well as an economic law.

Furthermore, it is entirely fair to Clark to define this final (or specific) productivity theory of wages (based on free competition and the established order of property) as hedonistic. For, one noteworthy character of the argument is that it proceeds in terms of quantitative increments of substitutable labor-power. Again, both employer and employee calculate in a normal way, according to relevant factors of quantitative pleasure and pain. Coupled with these obvious hedonistic implications is a utilitarian viewpoint as to the use of the theory in justifying the normal order of acquisitive capitalism. It would probably be unfair to Clark to insist that his wage doctrine is, in effect, that a worker gets what he gets according to the conditions of competition and property--and that this is equitable. The ethical (and economic) position intended by Clark may be seen more fairly in his primitive argument e.g. Crusoe could not reasonably expect to receive more than he created. Thus the "good" economic principle is postulated; and this postulate is further defined in the static theoretical world. It is not necessary for us to plumb further the implications of hedonism that are apparent in Clark's analysis. It is sufficient to recognize that, for Clark, the competitive wage system has its characteristic "good" principles and results which are "normal" i.e. they conform to the definition of the natural man's reasonable economic pleasures and requisite pains. The pain of work is normally rewarded by the pleasure of reaping the specific product: this is "good" economics. It is the maximum economic justice which the reasonable economic man expects. If this ethical criterion (a full return of the product of labor) is violated, the "normal" man may rightly conclude that he has been "robbed"; he may complain, then, about the competitive system. But, if he is shown that the system gives him his (virtual) product, he is estopped (for Clark) from complaint. He has, then, no ethical case of objection; he is merely (at most) the ephemeral victim of "friction" which prevents full competitive justice in his case. He "tends" to get what he (or his "marginal" efficiency correlate) specifically produces--in the long run. He tends, therefore, to realize the full "good" of competitive economic exchange of onerous work and enjoyable product.

This competitive ethics is the antithesis of Hobson's viewpoint--in fact is Hobson's favorite ethical "straw-man". Hobson would say that Clark's final ethical position is "separtist" rather than "organic"; that it is an elaborate "pure" defense of the individualistic status quo. He would suggest that wages are a social determination beyond the control of the worker; and that, therefore, true organic ethics should award wages that are needed for a decent standard of living--at least. He would suggest, perhaps, that Clark's wage principle is a definition of wages implied in a passing phase of acquisitive capitalism and that evolutionary growth makes an organic criterion a social necessity. But, since our present purpose is only to isolate ethical criteria apparently assumed as valid, we need not press the contrast between the mature Clark and Hobson further.

Clark's later ethical criterion is eloquently congenial to the calculating "economic man"--a keen accountant of cost and equivalent gain in quantitative terms. Hobson's criterion is prophetic of a new social order, where social responsibility for satisfying the individual's economic needs is granted, and work (according to ability) is socially organized.

Clark's work has revealed an interesting technical transition on the problem of the place to be properly accorded the ethical interest in wage analysis. It has seemed advisable (under severe limitations of space) to stress the radical character of this transition. But it would be unjust to Clark not to recognize, as we are constrained to close this study, that the "moral sense" of his earlier work is apparently undiminished in the mature work, which has given him wide fame as a theorist. To be sure, the "cooperative" bent of his keen sense of economic justice fell into apparent abeyance. But there can be little doubt that a highly developed ethical "sense" animates all of his later wage analysis. For Clark, the competitive wage system _must_ avoid all "institutional robbery"; it _must_ accord to every man his productive _quid pro quo_. The theoretical test which vindicates the competitive wage system has a vital ethical meaning throughout for Clark. It appears fair, then, to say that a _vital_ principle of economic cooperation is implicit in Clark's advanced work. In a word, Clark's strong moral urge is so vivid and genuine that his own "antitheses" of competition and cooperation almost seem to lie down together. Put, perhaps, in a more adequate form, the principle of cooperation, which we found to be Clark's early ethical criterion, somehow invigorates the beautiful logical consistency of his competitive scheme. That is to say, competition, perhaps, gets its fundamental ethical justification (for Clark) as an institution of human cooperation in the distribution of painful efforts and earned products.

II

T. VEBLEN

The widely recognized fame of Thorstein Veblen as an influential critic of traditional economic theory justifies our consideration of his work. We shall view his arguments in The Instinct of Workmanship first. There we will find a definition of his "instinctive" ethical criterion and some penetrative insights on the employer-employee situation. The Veblenian standpoint is complex and rich in scientific allusions, yet the central emphases are fairly clear.

Veblen assumes, with admitted dogmatism, a definition of "instincts" as the source of ends and the seat of authority as to their validation. He reasons that, notwithstanding the probable laxity of "instinct" for psychologists, the term is appropriate for a study which seeks the nature and causes of the growth of institutions, with particular reference to industrial "use and wont". The "native proclivities alone make anything worth while, and out of their working emerge not only the purpose and efficiency of life, but its substantial pleasures and pains as well".[1] By definition "instincts" are marked off from "tropismatic" reactions which are "automatic", since instincts are "teleological". The "instinct of workmanship" has a peculiar status, for it is an impulse toward contriving "ways and means to the end sought".

[1] T. Veblen, The Instinct of Workmanship, 1.

According, therefore, as one or another of the instinctive dispositions is predominate in the community's scheme of life or in the individual's everyday interest, the habitual trend of the sense of workmanship will be bent to one or another line of proficiency and technological mastery.[1]

Due to the presence of the instinct of workmanship in the complex of instincts, instincts may be said tobe both "intelligent" and "teleological". The scope of Veblen's study is set in "this endless complication and contamination of instinctive elements in human conduct, taken in conjunction with the pervading and cumulative effects of habit in this domain".[2]

Since our point of view in this essay makes an analysis of an ethical criterion outside of wage problems irrelevant, we shall turn at once to the evidence with which we are properly concerned.

But, first, certain matters of background are essential. The workman is a product of group life. He has no status as a workman outside the industrial institutional habits into which he is born. His native aptitudes go for nought unless he has acquired the workmanlike knowledge current in his given culture.[3] In a "pre-pecuniary" culture workmen cooperate to the common gain to no one's detriment, since there is no substantial private gain to be sought. "As workman, lab-

1 T. Veblen, The Instinct of Workmanship, 35.

2 Ibid., 29.

3 Ibid., 138.

ourer, producer, breadwinner, the individual is a creature of the technological scheme; which in turn is a creation of the group life of the community".[1]

Veblen notes with particular attention the transition from "free workmanship" to the "pecuniary control of industry". This advance is from savagery to civilization. The shift to a control of industry in terms of property relations is correlated with the advance of technological invention. Gradually, production becomes <u>mediate</u> rather than immediate; a class of "holders of equipment" arises, <u>who tend to produce in routine fashion, under control at a definite place</u>. A special individual interest in "ownership" of the material means of production is thus created. The exclusive control of the means of production carrys with it the control of the "community's joint product" of the "state of the industrial arts". The institution of ownership is intimately associated in its origin with the "growing advantages that may accrue to an individual as against his neighbors".----- "The members of the community come to work each for his own interest in severalty, rather than for an undivided interest in the common lot".[2]

Though the pecuniary scheme of life began in the "predatory phase", modern civilization belongs "precariously" in the "peaceable phase" of pecuniary culture. Nevertheless,

1 T. Veblen, <u>The Instinct of Workmanship</u>, 144.

2 <u>Ibid</u>., 161.

the dominant note is still the self-regarding impulses, for the economic interest converges on property rights.

Ownership is self-regarding, of course, and the rights of ownership are of a personal, invidious, differential, emulative nature; although in the peaceable phase of the civilization of ownership, force and fraud are, in theory, baned out of the game of acquisition,--wherein this differs from the predatory phase proper.[1]

Where, as in modern culture, emulative self-interest is directed to the acquisition of property, there is an increased application to work--for acquisitive purposes. This enhanced diligence is not a direct interest in workmanship or serviceability. The direct interest is in pecuniary gain, the "authentic end" is the amassing of wealth. This dislocation of values (instinctive ethical criteria) leads to "conspicuous waste" and sharp conflicts between the haves and the have-nots. More fundamentally, a dichotomy of attention arises, in that workmen experience a daily discipline close to the industrial process ruled by a demand for efficiency that the pecuniary logic entails, whereas the capitalists are narrowly concerned with a quest for profits.[2] The deeper meaning here is that there is a current distortion of values; pecuniary evaluation is the dominating concern, whereas the instinct of workmanship for the common interest should be paramount. Even more fundamental, then, than the instinct of workmanship is the "parental instinct".

1 T. Veblen, The Instinct of Workmanship, 172.

2 Ibid., 176.

This instinct <u>should</u> set industrial ends (and make them worthwhile); the instinct of workmanship would, then, strive to devise means for their achievement. The parental instinct <u>should</u>, therefore, be the ethical criterion of economic relations. Modern economic culture is (slightly) a compromise over "sheer predatory culture" in favor of the parental instinct; "self-aggrandisement" is mitigated (somewhat) by the rules of property themselves.

> That authentication of ownership out of which the sacred rights of property have apparently grown may well have arisen as a sort of mutual insurance among owners as against the disaffection of the dispossessed; which would presently give rise to a sentiment of solidarity within the class of owners, would acquire prescriptive force through habitual enforcement, become a matter of customary right to be consistently respected under the institutional forms of property, and eventuate in that highly moralised expression of self-aggrandisement which it is today.[1]

This "moral" and "peaceful" competition within the order of property reveals the workings of the "primordial parental instinct" and, in addition, a tendency that may eventuate in its "rehabilitation".

According to Veblen, modern conventional ethical standards are constituted by the pecuniary culture in an interesting way. Upper, middle and lower classes are respectively predatory, business and industrial classes. The first class is "disservicable" (aristocratic) and "gainful", the second is "gainful" and the third is "serviceable". The common man recognizes these "canons of reputability" and interprets the first class as "meritorious" and the third

[1] T. Veblen, <u>The Instinct of Workmanship</u>, 182.

class as "discreditable". "Aristocracy without unearned wealth, or without predatory antecedents, is a misnomer".[1] The enlargement of the second (commercial) class makes peaceable business the ruling interest of the modern community. Since the commercial gainfulness of business is correlated with the productiveness of industry, as we noted above, improvements of technology follow as an indirect result.

It has seemed essential to develop the above background of the modern wage situation, in preparation for our interest: what ethical criterion does Veblen apparently assume as valid in wage theory? A central fact (for Veblen), concerning the modern wage situation, has been presented. Pecuniary gain is the present effective incentive to industry. "At least superficially, or ephemerally, the workman's income under this pecuniary regime is in some proportion to his product".[2] In any event, accountancy of price and ownership is thrown into the foreground. The discipline of profits is impersonal; it is favorable to the advance of the industrial arts in the indirect way mentioned above. But what of the traditional economic theory that rigidly identifies the wages of labor with its product? The Veblenian standpoint is that this theory is now an "archaic" reading of a passing commercial phase of culture.

1 T. Veblen, The Instinct of Workmanship, 182.

2 Ibid., 184.

Among the assumptions of a hundred years ago was the premise, self-evident to that generation of thoughtful men, that the phase of commercialized economic life then prevailing was the immutable normal order of things. And the assumptions surrounding that preconception were good and competent for a formulation of economic theory that takes such an institutional situation for granted and assumes it to be unchanging, or to be a terminus at quem.[1]

Veblen's account is, however, "genetic"; it must, therefore, account for just that which traditional wage theory takes for granted. The new order points to less dependence on the "captains of industry" and more dependence on "industrial engineers". The "ideal" of pecuniary motives and habits is a "contamination" of the instinct of workmanship which should work for the parental instinct. For, there is an impulse to the common good that should give final value to the pursuit of industrial efficiency. The parental instinct (being primordial) is only in partial abeyance as the controlling ethical criterion of economic life. The instinct of workmanship, as it throws off contaminating shackles of pecuniary bias, will serve its inevitable source of ends and values. The parental instinct sets ends that are "serviceable, noble and beautiful for the common good".[2] The "polarization" of employer and employee, arising from "differential gains" and "conspicuous waste", will hasten a revision of institutional habits and finally give the primordial impulses uncontaminated play. The instinct of workmanship

1 T. Veblen, The Instinct of Workmanship, 207.

2 Ibid., 217.

will not always remain harnesses to a false "ethical" interest i.e. the financial standards of economic conduct. The parental instinct can not die of disuse because it is part of a native endowment of instincts, and the basic human source of ends and values for the social welfare. The instinct of workmanship, ever active with whatever institutional habits are at hand, is substantially aligned, at present, with the wrong master. There are signs, however, that this is a passing phase; and, already, the parental instinct is reasserting its native force.

The critical evidence of this transition to sound instinctive sources of values and ends is, for Veblen, the loose industrial contacts of the capitalistic class. The marked industrial inefficacy of capitalists is bringing into relief the vivid contrast of sound instinctive ethical criteria and the pecuniary prostitution of the "complexus of instincts". Viewed objectively, the economic habits of the pecuniary cultural phase are obsolescent. To be sure, these archaic social habits are works of the technological bent (the instinct of workmanship) in the service of "invidious competition for property". But the fault is not with the instinct of workmanship, which can readily be reoriented to the sound ends of social serviceability.

The productive unfitness of employers of workmen is a matter of fact for Veblen.

1 T. Veblen, The Instinct of Workmanship, 222.

> Even a cursory survey of the current achievements of these great modern industries as managed by businessmen, taken in contrast with the opportunities afforded them, should convince anyone of the technological unfitness of this business management of industry.[1]

This unfitness is shown by the resort to efficiency engineers to handle industrial problems in terms of prices and profits. There is a growing awareness, among the large membership of this expert industrial class, of the false goal standing in the way of the true end of serviceability to the community at large. The present pecuniary control is given a misleading "ethical" caste, because of the indirect residuum of social welfare that workmanship accomplishes in subservience to false pecuniary ideals. The really basic conflict arises in that pursuit of profit which manipulates markets and prices for the advantage of gains based on no concern for industrial and social welfare. The exclusive modern criterion of wages e.g. is pecuniary; <u>the wage-bargain is narrowly a price bargain with strong differential advantages wielded by the employer</u>. Enough conventional "rules" are introduced to maintain a peaceable regime, but the pecuniary bias is not accountable to labor-welfare beyond this bare minimum. But the expert workmen, who have learned to master the technical phases of industry, see their false leadership, even as they make the price-decisions which ruthlessly overlook the welfare needs of fellow workmen. The scientific bent (the modern development of the

1 T. Veblen, <u>The Instinct of Workmanship</u>, 222.

sense of workmanship) cannot help but apply its expert training in finding "causes" and "devices" to the end of a gradual purging of this decadent commercial idealism; for the modern mechanistic conceptions are essentially a technological advance which the expert workmen have discovered and applied. The "suzerainty" of the price system and its "opulent manipulators" is, too, a technical device of exchange, but certainly not a social ideal grounded on basic human impulses.[1]

It must be conceded that the sharp emphasis on individual rights had its advantages in an age of petty trade, and settled questions of wage distribution with a considerable degree of social satisfaction at that time. Nevertheless, the modern large-scale machine culture demands a revised scheme, based on a return to the true source of values i.e. the parental instinct. "Under the teaching of the price system efficiency came to be rated in terms of pecuniary gain."[2] But pecuniary efficiency is only incidentally industrial efficiency. The pecuniary habit has contaminated the workman's special concern of serviceability. Workmanship has come to be confused with "salesmanship". Unearned gain is accepted as a measure of productiveness.

In sum, the bearing of this false price idealism on wages places a premium on bargaining strength; "men are conceived to serve the common good somewhat in proportion as

1 T. Veblen, The Instinct of Workmanship, 325.
2 Ibid., 344.

they are able to induce the community to pay more for their services than they are worth".[1] The machine industry has intensified the wasteful effects of such price-bargains, both on the side of "opulent display" and wide-spread poverty. But there is a basic impulse that will not be downed which sees that "the processes of industry are bound in a comprehensive system of give and take, in such a manner that no considerable fraction of this industrial system functions independently of the rest".[2] The pecuniary motive, a growth of pecuniary institutional habit, will gradually release the sense of workmanship, more and more, to service of true ethical ends which the parental instinct provides.

Building, again, from the premises of the radical distinction between industrial and pecuniary employments, Veblen speaks as follows concerning wages in The Place of Science in Modern Civilization.

> In modern life remuneration is, in the last analysis, uniformly obtained by virtue of an agreement between individuals who commonly proceed on their own interest in point of pecuniary gain. The remuneration may, therefore, be said to be a "function" of the pecuniary service rendered the person who grants the remuneration; but what is pecuniarily serviceable to the individual who exercises the discretion in the matter need not be productive of material gain to the community as a whole. Nor does the algebraic sum of individual pecuniary gains measure the aggregate serviceability of the activities for which the gains are got.[3]

1 T. Veblen, The Instinct of Workmanship, 350.

2 Ibid., 350.

3 T. Veblen, The Place of Science in Modern Civilization, 304-5.

This view is radically critical of the usual productivity theory of wages e.g. that of J. B. Clark. According to Veblen, the two ideas of productivity and remuneration should be dissociated. Wages are not, finally, a function of productivity but an outcome of the wage bargain. The worker will sell his services at the most advantageous price possible in the pecuniary wage market. The lower limit of this price is a competitive pecuniary fact, and tends to the standard of living which will support the needed supply of labor. The discretion in wage contracts rests with the individuals making the bargains <u>under the given conditions of the price system</u>. "Society" does not reward the worker for his services; modern wage transactions are not carried out for the sake of the "collective good". A worker does not get in pay what he produces, <u>but what he can bargain for</u>. A productivity theory of wages expresses "faith in a beneficent order of nature", rather than facts about the modern community operating on a pecuniary basis. The "natural" order of classical productivity theory is contrary to fact e.g. the facts of waste of energy and goods; and of "deterioration" in pecuniary societies. The Crusoe economy, to which resort is made by productivity theories, is not a modern industrial community. The fact is that production is subordinate to the profit and loss situation of the employer --and the employee. For, the employee <u>must</u> make a relevant price bargain under the pecuniary labor market conditions and the wider conditions of pecuniary interest of the employer. The profit motive is now paramount for all concerned; production is "pecuniarily" efficient i.e. profitable sales to customers are an essential part of the price game. Where price considerations happen to tie in with better service to customers, the better service will follow. But this conformity to the public good is not in the "order of nature"; where profits are possible through waste, or essential disservice, the profit motive will control. Buyers and sellers work in modern price markets in severalty; their interests are discrete and in pecuniary terms; the wage contract is no exception. The claim that a worker gets all he produces is sentimental; it is not true.[1]

For Veblen, then, the ethical criterion that is evolving in the growth of economic institutions is the instinct for the public good (parental instinct). Allied with this proper source of ends and values, the industrial interest (instinct of workmanship) will eliminate the wastes of present production e.g. that of "keeping up appearances". Veblen is a student of institutional genetics and does not dogmatize a constructive program. He does, however, apparently envisage a trend to an economic system based wholly neither on contract nor status. He clearly sees the false ethics of current, wasteful "invidious emulation", which is an inevitable counterpart of exchange by contract, based on private

[1] T.Veblen, The Place of Science in Modern Civilization, 304-10.

property. Whatever the future may evolve in the way of a revised economic system, it is certain that production for consumption, driven by the uncontaminated impulse for the economic good of the total social economy, is a sound ethical tendency. The current false wage ethics follows from institutional facts and habits which put the pecuniary interest in control, whereas the industrial interest, in the service of the total social good, is natively fundamental.

IV

W. C. MITCHELL

W. C. Mitchell delivered the presidential address at the thirty-seventh annual meeting of the American Economic Association, held in Chicago in 1924. He discussed Quantitative Analysis in Economic Theory. Since Mitchell wrote his doctoral thesis on the green-backs he has rapidly advanced as a leading exponent of quantitative analysis in economic theory.[1] The group of statistical economic analysts is very large today and for many of this group, perhaps, Mitchell is a fairly representative spokesman. In his presidential address he wrote at greater length than is his wont on the ethical aspects of statistical economics. This statement is true in spite of the fact that the address is a bare twelve pages in length. It will, therefore, repay our close consideration. We shall afterwards turn to characteristic wage analysis and note the character of the ethical criterion apparently assumed as valid.

Mitchell's text is a quotation from Alfred Marshall: "Qualitative analysis has done the greater part of its work in economic science and the higher and more difficult task of quantitative analysis must wait upon the slow growth of thorough realistic statistics".[2] Mitchell reads this quota-

1 W. C. Mitchell, History of the Greenbacks, Univ. of Chicago, 1903.

2 From an address delivered before the American Economic Society in 1907.

tion as a call to "dogmatizing about method at large" and acclaims the "cheering evidence of progress" that "we" are only "experimenting with methods in detail". Detailed methods include resort to both qualitative and quantitative analysis, depending on the task at hand and the proficiency of the analyst. But Mitchell decides to say very little about qualitative analysis other than "the obvious remark that it cannot be dispensed with, if for no other reason, because quantitative work itself involves distinctions of kind, and distinctions of kind start with distinctions of quality". The issue of the address is therefore: "What can we hope from quantitative, the less thoroughly proven type of analysis?"[1]

The first significant question which Mitchell asks is: does a statistician answer the questions asked by a qualitative theorist? Mitchell's negative answer is based upon the necessity of recasting "old" problems in "forms amenable to statistical attack". "In the course of this reformulation of its problems, economic theory will change not merely its complexion but also its content". Marshall, asserts Mitchell, reasoned from fixed assumptions, whereas statistics seeks "empirically valid demand curves and coefficients of elasticity for numerous commodities". Jevons, on the other hand, saw statistics as the science which verified and rendered useful the findings of deductive science. However, the de-

1 W.C. Mitchell, Quantitative Analysis in Economic Theory, 1.

ductive science of Jevons (e.g. the calculus of pleasure and pain) is "passing off the stage". Though Marshall repudiated the hedonism of Jevons "he conceived of economic behavior as controlled by two opposing sets of motives, the motives which impel us toward consumption and the motives which repel us from labor and waiting". Marshall hoped, in a word, that quantitative method would render the money measuring rod of these motives more precise. But, likewise, this hope is passing. For, statistical data are "objective phenomena"; and statistical findings are drawn out of these data--not "something which the theorist adds to the data". The economist does not make "excursions into the subjective", does not enter into metaphysics. The aim of statistical economics is to "lay a foundation in the behavior of individuals on which could be built an explanation of mass phenomena". Statistical economics goes directly to "real markets" and derives detailed insights therefrom; it does not construct an anticipatory "conceptual device" from fixed assumptions. Indeed, it is very likely that statistics will disregard "imaginary individuals coming to imaginary markets with ready-made scales of bid and offer prices".[1]

Mitchell emphasizes that quantitative analysis, in making objective analysis of the economic behavior of groups, will treat motives as "problems requiring study, instead of

[1] W. C. Mitchell, Quantitative Analysis in Economic Theory, 2-5.

being taken for granted as constituting explanations". These problems will proceed by analysis of "behavior records" and aim at ways of experimenting upon behavior. Thus the "old" and "static" conceptions of human nature are passing. In fact, all students of social science are students of some part of the field of human behavior. Each special study (e.g. of labor problems) is at once a "process of differentiation and integration", using the words of Herbert Spencer. The characteristic production of the new economics is a monograph. "Knowledge will grow by accretion as it grows in the natural sciences, rather than by the excogitation of new systems".[1]

Thorstein Veblen, claims Mitchell, has emphasized an important problem i.e. "the relation between business and industry, between making money and making goods, between the pecuniary and technological phases of economic life".[2]

> Such topics as the economic serviceability of advertising, the reactions of an unstable price level upon production, the effect of various systems of public regulation upon the services rendered by public utilities will be treated with incisive vigor as we become able to make indispensable measurements. And investigations of this type will broaden out into a constructive criticism of that dominant complex of institutions known as the money economy--a constructive criticism which may guide the efforts of our children to make that marvelously flexible form of organization better fitted to their needs.-------If our present beliefs are confirmed, that the human nature which men inherit remains substantially the same over the milleniums, and that the changes in human life are due mainly to the evolution of culture,

1 W. C. Mitchell, Quantitative Analysis in Economic Theory, 5-7.

2 Ibid., 7.

economists will concentrate their studies to an increasing degree upon economic institutions--the aspect of culture which concerns them.------*With the growing prominence of institutional problems, the fundamental issue of welfare is inextricably involved. What quantitative analysis promises here is to increase the range of objective criteria by which we judge welfare, and to study the variations of these criteria in relation to each other*. The statistical worker is in no better position than any other student to specify what mankind should aim at; but in view of the multiplicity of our competing aims and the limitations of our social resources *his help in measuring objective costs and objective results is indispensable to convert society's blind fumbling for happiness into an intelligent process of experimentation*.[1] (Italics added)

Apropos of "experimentation" in the interest of welfare, Mitchell concludes that experiments are possible in the social sciences e.g. *we experiment with different systems of remunerating labor*. But this is a virgin field of great difficulty because social laboratories lack the controls of physical laboratories.

Statistical economics, then, rests fundamentally upon *observation*, whereas deductive economics produces a mechanical type of explanation involving the "notions of sameness, of certainty, of invariant laws". Statistics involves the "notions of variety, of probability, of approximations". The aim of economics should be to understand the world of which we are a part. But "always our thinking will cover a field larger than our measurements; the preconceptions that shape our ends, our first glimpses of new problems, our widest generalizations will remain qualitative in form".[2]

1 W.C. Mitchell, *Quantitative Analysis in Economic Theory*, 7-8.

2 *Ibid.*, 8-12.

We should draw some tentative inferences from Mitchell's argument in preparation for an ethical analysis of his wage "theory". Statistical economics, according to Mitchell, attacks problems with common-sense preconceptions. Detailed studies will serve to revise problems and provide relevant objective criteria (ethical and otherwise) for use in directing and remolding economic institutions. A statistical economic problem is as close as may be to things as they are; no element of importance is taken for granted; the problem is actual. The basic ethical interest is, apparently, the thoroughly human one of building a better economic world in which to live happily. Deduction, however, is not pursued any further than the facts allow. Induction and deduction are inter-related cognitive levers; together, they constitute the human power to know things as they are and to plan ("as we go") better methods of objective direction and control. The ethical criterion for Mitchell is apparently a matter of statistically informed common sense. Statistical studies show the <u>real</u> facts, and serve to <u>reorient, refine and redirect native common sense</u>. Common sense needs are valid cues as to where to look for important institutional problems. Statistical economics provides knowledge, i.e. the content of revised human aims, the methods and conceptions necessary to satisfy basic needs. Thoroughgoing realism and flexible attention to all relevant and influential elements of a problem are apparently characteristic of Mitchell's standpoint. Economics is as ethical in interest as human needs demand, and gathers revised human insights as institutional facts are made known by statistical technique. His debt to Veblen is apparent and gladly admitted by Mitchell. The correlation with Hobson's view is also remarkable; in Mitchell we find the statistical emphasis stressed, yet the phase of institutional welfare is outstanding. On the other hand, Mitchell's critical stand (with Veblen and Hobson) against a position such as J. B. Clark's is evident. Interesting as such comparisons are, it is irrelevant to extend them further.

In order to introduce Mitchell's objective conception of an ethical criterion in wage "theory", we shall first select a group investigation with which he was prominently identified for very brief study. "The National Bureau of Economic Research; Incorporated", was chartered in 1920 to conduct "quantitative investigations into subjects that affect public welfare". The first report of this bureau, Income in the United States, Its Amount and Distribution, 1909-1919, was published a year later. The guiding ethical interest of the bureau (W. C. Mitchell, chairman of staff and director-at-large) was "a desire to learn whether the national income is adequate to provide a decent living for all persons---".[1]

Allowing for a margin of error "that is probably less than 10 per cent" the national income for 1918 was 61 bil-

[1] Income in the United States, "Preface".

lions, the per capita income $586; reduced to prices of 1913, these results are 38.8 billions and $372 respectively. These results are larger than for any other country, the United Kingdom falling second place with results of 10.9 billions and $243.

It should be noted that when we start from the top of the income scale, we must go down to people receiving $8,000 per annum, in order to include one per cent. of the income receivers. Similarly, to include 5 per cent. of the income receivers we have to descend to incomes of $3,200-$3,300. To include 10 per cent., we must take in part of the $2,300-$2,400 class; and to include 20 per cent. we must include part of the $1700-$1800 class.[1]

It would, obviously, take us too far afield to follow the methods or findings of this statistical study further. Of course, economic statistics, per se, involves only counting; but "what" is counted (and "why") involve criteria, some of which are "ethical" i.e. "affect public welfare". The investigators were apparently motivated by a desire to know whether a "decent living" was provided for all persons. This is apparently the ethical criterion of this statistical wage study.

Mitchell offers us statistical studies of the flow of money incomes--a type of work which has just been amply illustrated. However, we must hear him briefly on the ethical bearing of this type of work. In an early study he traces the influence of unstable money upon labor welfare for the period 1860-1866.

1 Income in the United States, "Conclusions".

Statistics of relative money wages, no matter how elaborate, throw no light upon the relative well-being of the working classes until they have been compared with figures that show the changes in cost of living.(335)---------All of the statistical evidence that has been presented in the preceding pages supports unequivocally the common theory that persons whose incomes are derived from wages suffer seriously from a depreciation of the currency. The confirmation seems particularly striking when the conditions other than monetary affecting the labor market are taken into consideration. American workingmen are intelligent and keenly alive to their interests. There are probably few districts where custom plays a smaller and competition a larger role in determining wages than in the northern states.(347-348)------ But despite all these favoring circumstances, the men who stayed at home did not succeed in obtaining an advance in pay at all commensurate with the increase in living expenses.(348)------After such an examination of the change in the condition of the great mass of wage-earners, it may seem surprising that few complaints were heard from them of unusual privations. This silence may be due in part to the fact that a considerable increase of money income produces in the minds of many a fatuous feeling of prosperity, even though it be more than offset by an increase of prices. But doubtless the chief reason is to be found in the absorption of public interest in the events of the war.(350-351)[1]

This early work clearly reveals a strong ethical sense which appears to give Mitchell a needed personal motive for carrying on as an economist. He is deeply interested in the price disturbances of a closely knit money economy which result in diminished human welfare. This attitude is eloquently expressed in a fairly recent discussion of the problem of controlling business cycles.

During this year millions of us were idle when we wished to work, billions of dollars' worth of plant and machinery stood unused when the owners longed to start their furnaces, and what we wanted to produce we needed to consume. The edict of enchantment which forbade us to do what we wished was pronounced by the money economy. We are periodically mastered by this social machinery we have made, and stand idle and needy at its bidding. For with all its ef-

[1] W. C. Mitchell, <u>A History Of The Greenbacks</u>, 335-351.

> ficiency the money economy has a fundamental defect--it warps the aim of our economic activity. What we want as human beings is to make serviceable goods. What we are compelled to do as citizens of the money economy is to make money. And when for any reason it is not profitable to make goods, we are forced to sacrifice our will as human beings to our will as money makers. That is the heart of the paradox.[1]

Mitchell's theory of business (profit) cycles is grounded on the belief, which Veblen has expanded, that the root of most economic evil is the relentless pursuit of profits.

> The elaborate cooperative processes by which a nation's people provide for the meeting of each other's needs are thus brought into dependence upon factors which have but an indirect connection with the material conditions of well-being--factors which determine the prospects of making money.[2]

When we turn to these statistical studies on the greenbacks and business cycles, we find a thoroughgoing realization of the paramount importance of an enveloping ethical interest. There is an undeniable character of homely, common sense faith in Mitchell's position. The function of statistical economics is to promote, in a humble way, the fundamentally human task of social amelioration. Mitchell comes to his given limited data with a deep sense of human needs and welfare, born of his broad sympathies and brotherly humanitarianism. There is a marked similarity to Alfred Marshall's evangelical moral warmth in his "prejudice" for human betterment as the driving force in economic studies. It is, perhaps, a matter for some regret that Mitchell does not analyze his vivid and dominating ethical sense in broad-

1 W. C. Mitchell, The Stabilization of Business, 52.

2 W. C. Mitchell, Business Cycles, 66.

ly theoretical terms. He would undoubtedly answer this challenge, however, in terms of the groping ethical impulse, which is common to mankind, that is objectively clarified, bit by bit, in the process of statistical solution of local economic problems. There is a close affinity to Veblen's "instinctive" ethical criterion in this standpoint; Mitchell's emphatic sense of the widespread modern domination of money interests is also notable in this comparison. The lure of profits is the effective modern economic motive for Mitchell. Like Veblen, he deprecates the substantial failure of human welfare motivation in modern economic institutions.

V

A. C. PIGOU

A. C. Pigou is an outstanding English representative of the humanized classical tradition in economics. His immediate master is Alfred Marshall. His method of analysis apparently wavers between the deductive interest, introduced by the stock expression "other things being equal", and a strong human and realistic interest, introduced by the expression "but in real life". The latter considerations, in many cases, apparently destroy the "ideal" tendencies of the earlier analysis. But issues of general methodology are only relevant for us as they serve to distinguish the operative ethical interest and criterion. First, we shall view an earlier work, written in 1905, entitled <u>Principles and Methods of Industrial Peace</u>. We shall only sketch so much of the central wage thesis as will tend to clarify the ethical criterion apparently assumed as valid.

Pigou declares, in the analytical table of contents, that "the problem of this book is ethical--to determine what principles and methods ought to be employed in the settlement of industrial differences, rather than to describe those which are employed". This promises an analytical exposition of the ethical criterion to be employed, but the implied promise is not fulfilled. Though this work is in the optative mood, Pigou does not deem it necessary to enter "those fundamental controversies in which the science of the good is involved".

> The strenuous debate still raging as to the topography of that promised land has not proved incompatible with agreement as to the general direction in which it lies from our present habitations. The question, whether or not such and such a change would be an improvement on the existing state of things, is often answered in the same way by thinkers whose fundamental doctrines are quite irreconcilable with one another. Thus, if only a scheme were found by which rich and poor could be bound together in closer unity, all schools of thought would welcome that result; and their agreement in this is sufficient for our purpose, even though they immediately dispute as to whether it is good because it makes men happier, or because it is a step towards the moral union of the Kingdom of God.[1]

Pigou decides to remain "upon the surface of things, accepting the social system as he finds it, and making no attempt to pierce beneath those media axiomata of conduct with which common sense is content". On the other hand "concrete economic analysis---is the instrument of knowledge, by which the leading part must be played".[2] Pigou pays his respects to an extensive literature on his subject and conceives his contribution as unique i.e. to view modern devices for promoting industrial peace "comprehensively in the light of an end". No further analytical attention is paid to the "end", other than the quotation given above. This end, then, by definition, is to bring rich and poor into closer unity. This is apparently the ethical criterion of Pigou's economic analysis. The relevant comment for us to make is that vague ethical principles are probably always

1 A. C. Pigou, Principles and Methods of Industrial Peace, 4.

2 Ibid., 3.

implied in economic wage analysis. As we shall see throughout Pigou's work, the meliorative practical bearings of his arguments are characteristically present. We have in Pigou's earlier work, however, the admission that this practical character of his wage analysis rests on an <u>ethical</u> interest and criterion; later he seeks to qualify this concession.

How does Pigou's apparent ethical criterion operate in his theory of wages? Does he give the criterion a more detailed expression? It is obviously necessary to review some preliminary matters before these questions can be faced squarely. Wages (for Pigou) should fluctuate around the "normal" wage level. This is the long-range standard that deductive marginal analysis discovers. Its rough practical expression is "equal pay for equal efficiencies". So far, this form of analysis is congenial to Clark's determination of the wage point on the theory of marginal substitution. "Other things being equal" (argues Pigou) equal efficiencies will be rewarded by equal pay. But this analysis has an explicitly realistic and ethical twist, which makes the marginal deduction of an ideal wage rate a bare introduction. The essential and extended part of the analysis is taken up with qualifications from the short-range standpoint i.e. <u>practicable</u> wage policy in actual cases. The deductive analysis, it seems, serves as an ideal standard which assigns statistical work some severe tasks. In other words, the deductive marginal worker determines the wages of his capacity-class, and since this rate bears some relation to a subsistence or efficiency level, we have the principle that the general level of efficiency wages determines the "normal" wage in actual cases. (Pigou quotes Marshall and Clark as authorities on this position.) But this "actual" level is a statistical finding of great complexity. Pigou enters these problems in a rather tentative fashion; he indicates a "rough" practical method: some year, recognized as normal, is arbitrarily chosen, and the wage of that base year is adjusted by an index of the change in the general wage level to date.[1] The objective, then, is to provide "real" (effective) wages which conform to an efficiency level in the given economic conditions.

The deductive principle, we should remember, that orders this statistical investigation is that, "other things being equal", wages should conform to the "normal" level in respect to the oscillations of supply and demand. Statistical indices that are helpful in actually realizing this mechanically conceived adjustment, are "prices", "margins", "output", and "profits". All these indices should be used, and checked against each other, to obtain an approximation of accuracy. In the background of this argument is the clear recognition of the conflicts of the "ideal" rate with the <u>irrational</u> factors of actual cases. Wages "<u>should</u>" conform to the deductive analysis of marginal equilibrium of supply and demand. But Pigou is very aware of the practical

1 A.C. Pigou, <u>Principles and Methods of Industrial Peace</u>, 59-61.

qualifications that should be made in actual cases. The "natural" (long-range competitive) solution of wage difficulties would be the best in a world of economic harmony. The "ethical" interest of Pigou, then, is close to actual industrial conflicts of employer and employee. He seeks an adaptation of a priori wage mechanics in the interest of a closer unity of rich and poor i.e. industrial peace. And here Pigou gives his ethical criterion a biological turn of great interest to us.

> In the last resort, however, mechanical analogies must give place to biological. For, an artificially increased wage rate may indirectly influence the quality and general efficiency of work-people. In these circumstances, an advance in their fortune, artificially secured, need not involve a decline in the demand of capital and employing power for their services.-----With increased nourishment, leisure, and so forth, the work done may gradually become a different commodity, really worth the higher wage. In short, the biological law of functional adaptation supervenes upon the mechanical laws of equilibration.[1] (Italics added)

Nevertheless, Pigou forcibly expresses the deductive play of demand and supply which "tends" to destroy wages above the normal point of equilibration. At the same time, "in real life", he is on ethical guard to locate practicable, short-range principles which tend to equate the status of rich and poor. The "biological law" is an interesting ethical tool which satisfies this realistic bent.

Pigou wrote The Economics of Welfare in 1929. The extended discussion of economic method and scope makes no ex-

[1] A. C. Pigou, Principles and Methods of Industrial Peace, 47.

plicit reference, as before, to the term "ethical".[1] Economics is conceived as a "science", "qualitative" at present, but with a "quantitative" ideal. The economist adds "something" to his description of economic mechanics, because his science is the basis of an art of economic control. This personal "something", which the economist adds to his descriptions of economic structures, originates in the "motive" of economic study, which is to "help social improvement". Economic reasoning *per se*, however, does not indicate what ought to be done. Economics is a science which is the basis of an art; it is not itself an art. The exclusive criterion of economic reasoning is quantitative--so far as present statistical data and methods will permit.

Certain assumptions of probability are made by Pigou with reference to the influence of "economic welfare" upon "total welfare". Economic welfare includes only those satisfactions and dissatisfactions which can be measured in the monetary unit. The technical meaning of economic welfare is contained in the conception of the "national dividend" i.e. social net income. Pigou's study centers upon the causes which affect the size and distribution of the national dividend. Causes which affect "size" do not necessarily influence "distribution" in an advantageous way. It is taken as probable that courses of conduct which increase the size of the dividend, and which tend to increase the proportion of

1 A. C. Pigou, *Economics of Welfare*, 1-126.

the dividend going to the poor, are economically sound and affect total welfare for the better. Economics is, then, a "realistic" study which aims at generalizations ("light") as to the work of "mankind in the ordinary business of life".[1] But economics is also, indirectly, interested in "fruit" i.e. in providing laws which may guide business men and statesmen in problems of economic control.

Enough has been said, perhaps, to suggest that the practical interest is as strong here as in the earlier work. Conclusions of Pigou's economic analysis apparently proceed in terms of a desirable course of conduct because that conduct will tend to increase the national dividend--or tend to increase the relative proportion of the dividend going to the poor--in the long run. The transition from mechanical quantitative analysis to principles of economic guidance is, it seems, constantly made. The conclusions are apparently normative, as they were (explicitly) in the earlier book. Yet Pigou does not choose to call the later treatment "ethical", as he did the earlier one. The phase of "description" of economic mechanics is now stressed in the conception of economics laid down. However, in the earlier work, "concrete economic analysis" was asserted to do the major work. In truth, it is difficult to see a change in essential method, scope or ethical criterion in the two books. The redef-

1 Pigou's extensive debt to Marshall is apparent. As we shall see later, Marshall probably allows more ethical liberality in deductive wage theory than Pigou.

inition of economics as "science" has apparently not altered the normative character of the reasoning in the final analysis. Pigou is still eloquent in his insistence that the economist "helps social improvement". The adaptation of mechanical reasoning to qualitative problems of control is always at the front of his attention. Then, too, the probable enhancement of total (non-economic) welfare is persistantly affirmed, when a course of economic conduct is "advised".

We may now turn to the most attractive wage analysis in the recent book for our purposes, viz. "unfair wages". Only so much wage doctrine will be developed as promises to disclose the ethical criterion apparently assumed as valid. At the same time, we shall test the character of the economic analysis from the standpoint of this transition.

Pigou accepts a marginal productivity theory of wages. As we saw in the case of Clark's mature analysis it appears, at first, to be folly to go very far in imputing an effective ethical criterion within the deductive structure of this theory.[1] Are we justified in reasoning from the assumption of free competition alone to an (individualistic) ethical criterion? Apparently not, for the deductive mechanics of marginal reasoning may be engaged in by analysts of varying

[1] Clark's specific productivity theory of wages is, of course, to be distinguished from his final productivity theory. The comparison refers to the latter (Marshallian) type of marginal analysis.

ethical standpoints; it is, therefore, more illuminating of the true ethical interest to study ulterior uses of the marginal analysis. As we saw in studying Clark, however, the assumption of pure competition, even if only for the time being, includes a characteristic ethical assumption. Wages, accepting the marginal productivity theory of value, are "fair" or "just" when they equal the marginal product of the same-quality producer. This deductive analytics undoubtedly becomes an ethics when used as a criterion of judgment of the "good" character of wage conduct. What was, at first sight, purely financial analysis, takes on an ethical bearing when the "justice" of a wage payment is claimed. Therefore, the narrow quantitative motives of the marginal analysis appear to grow into ethical proportions <u>when the analysis is used as a tool in questions of practical import</u>. What appears as folly of imputation within the marginal analysis, becomes sensible in the total situation.

The above reasoning (it is hoped) explains the attraction of Pigou's analysis of "unfair wages" for our purposes.

> Provided that the wages paid to workpeople in all places and occupations were equal to the values of the marginal net product of their work--and provided that the distribution of all grades of workpeople among different places and occupations were ideal,--subject to the existence of local differences in the cost of living, there would be established between different people's wages a certain relation. This relation I define as fair".[1]

"Fair" wages means, then, that, as between persons of the same grade, there <u>should</u> be equality of real wages. In an

[1] A. C. Pigou, <u>Economics of Welfare</u>, 549.

industry wages are "fair", relative to industries in general, when (quoting Marshall) "they are about on a level with the payment made for tasks in other trades which are of equal difficulty and disagreeableness, which require equal natural abilities and an equally expensive training". Real wages should be proportioned to efficiency; "the efficiency of a worker being measured by his net product conceived as marginal, multiplied by the price of that product".[1] The analysis then takes this form: under what circumstances is "interference" with wages a benefit to the national dividend?

The problem of most interest to us Pigou describes as "exploitation". In this analysis it is assumed that the marginal net product is sufficient to pay "fair" wages but that <u>the employer holds back part of the product</u>. "If perfectly free competition prevailed everywhere, the wage rate paid by any employer in any occupation would be determinate at a definite point".[2] But ignorance, and costs of movement, introduce a monopoly element into the wage bargain. There is a "range of indeterminateness", a gap between the worker's minimum and the employer's maximum rate. The strategic strength of the employer tends to make this range a wide one "in real life". Strong trade unions tend to equal-

[1] A. C. Pigou, <u>Economics of Welfare</u>, 549.

[2] <u>Ibid</u>., 557.

ize the respective bargaining powers.[1] However, in real life, the poor and ignorant or the economically weak ("women and children") are subject to exploitation--unless the employer is deterred by "feelings of generosity and kindliness".[2]

We must now view another aspect of the argument.

> Thus it appears *prima facie* that, though the abolition of this type of unfairness would presumably benefit economic welfare as a whole by preventing the relatively rich from taking money from the relatively poor, it would make no difference to the magnitude of the national dividend.[3]

That is to say, "directly" it does not appear that exploitation upsets the most advantageous distribution of labor. But the analysis then traces the "indirect" effects of exploitation on the national dividend. By this course of reasoning the ethical criterion (which strives to bring the poor and rich into closer unity) is vindicated. One indirect effect (Pigou argues) is that some workers may see their disadvantageous position and move away; thus the marginal net product goes still higher, while the wage rate is static. Since this involves a disadvantageous distribution of labor, the national dividend is injured. Again, some employers specialize on squeezing their employees at the expense of possible rationalization of their factories. "To

1 A. C. Pigou, *Economics of Welfare*, 558. The recurrence of this unequal "play of forces" in the wage analyses we are studying is noteworthy.

2 *Ibid.*, 560. These "feelings" are far from negligible in importance for Pigou.

3 *Ibid.*, 560.

prevent them from seeking profit along the line of bargaining power indirectly impels them to seek it along that of technical improvement". Still another indirect effect is that the exploiting employers may "receive more than the normal earnings of persons of their degree of competence".[1]

> If the exploiting employers were persons of the ordinary competence of their grade, interference, which forced up the wages paid by them to a fair level, would simply compel them to hand over to workpeople profits formerly extracted by force majeure, and would have no other effect.[2]

The point of this quotation is that exploitation provides a bounty, at the workers expense, for relatively incompetent employers. An interference to raise wages to the fair level would hasten the defeat of these incompetents. Considering all of these "indirect" effects, it is plain "that external interference to prevent that type of unfair wages which I have described as exploitation is desirable in the interest of the national dividend as well as upon other grounds".[3] (Italics added)

The biological standpoint has been implicitly operative in these considerations. We have seen how the ethical criterion (to bring about unity of rich and poor) set the position that was validated by the analysis of indirect effects on the "social net income" (national dividend). These latter arguments depended on showing that interference to raise wages would mean an improvement in distribution of labor

1 A. C. Pigou, Economics of Welfare, 561-2.
2 Ibid., 563. Cf. Hobson's analysis of "surplus".
3 Ibid., 563.

(and so wages)--and these arguments, in turn, rest on a biological base.

> For improved distribution is likely to modify the proportion in which future generations are born form richer and poorer classes respectively.----A considerable correlation exists between poverty and "bad" original properties.----Hence, it would seem an improvement in the distribution of the dividend may be expected actually to diminish the proportion of children born from inferior stocks.[1]

Hence, improved distribution makes for economic and general welfare i.e. closer unity of rich and poor.[2]

Pigou expresses his wage views in more popular fashion in a book on Unemployment, first published in 1913. The reasoning, to begin with, assumes a "perfectly stationary state" and strives to show that unemployment follows artificial maintainance of wages above that level which the free play of economic forces (demand and supply) tends to bring about. For, if (as is the case in real life) some workers are not worth the minimum wage, or the wage demanded by trade unions, the result is that this large group of workers cannot find employment. Industrial efficiency cannot support payment of wages above that level which the unimpeded play of supply and demand fixes. The essential opportunity for improvement is a program of education and training for the lowest grade of workers. Only by improving their quality of work can the demand for this increased industrial efficiency be invoked. Pigou seeks in these principles the

1 A. C. Pigou, Economics of Welfare, 122-3.

2 Ibid., 124.

"cold clarity of science", yet he is eloquent in his statement of the motives and emotions that lead to the restrained "method of science".

> The only way in which it is possible to contrive measures of social improvement that shall be free from this great danger (i.e. the neutralization of immediate good effects by wider causes) is to found them upon a close and thorough study of economic life as a whole. If the "art" of social reform is to be effective, the basis of it must be laid in a "science".----Resentment at the evils investigated must be controlled, lest it militate against scientific exactitude in our study of their causes.1 (Parenthetical insert added).

The controlling ideal is that wages should be "plastic" i.e. conform to all changes in supply of and demand for labor. Any "rigidity" is a cause of unemployment. The most satisfactory relations between employers and employed exist when there are no artificial protections of the employees. Workers should earn all they get. All a worker should be paid is the price of his labor-power on the labor market at the equilibrium of supply and demand. Qualifications of this absolute standard are palliatives of local and transient effect. These relief measures are sometimes immediately advisable but their ultimate (theoretical) effects destroy the narrow advantages realized. In the long run, wages must be allowed to follow the detailed determinations of market conditions. Scientific insight shows that the price system should not be artificially controlled. A sound wage ethics centers attention on raising the efficiencies of workers, so

1 A. C. Pigou, <u>Unemployment</u>, 10-11.

that free competition will afford adequate pay to maintain and advance a standard of living requisite to the needed industrial efficiency. A true economic ethics does not give without adequate return. Since pay is according to ability to produce under the given wage market conditions, a true economic ethics focuses attention on the education and training necessary to correlate pay and the standards of capacity necessary to earn that pay. The only economically sound remedies of industrial fluctuations are those which enable a worker to give value received for his wages under competitive market relations. The worker must realize his competitive situation and improve himself accordingly. He must see the profit and loss situation of his employer, and fit himself into the requirements of that system. His wage attitude must be impersonal--he must understand and abide by the price rules and fit himself to strike a free bargain which satisfies the requirements of industrial exchange and, at the same time, gives him an earned return adequate to his standard of living.

The dogmatic flavor of this account is distinctly interesting. If the point of view we have just summarized were carried out, without qualification, in Pigou's cautious theoretical analyses, his full alignment with classical economic hedonism would be clear. For in this popular account, it may readily be granted that the "education" of workers is extrinsic to the theoretical determination of the wage rate. Essentially, this dogmatized theory of wages is grounded on Ricardian "self-interest" and economic laissez-faire. The glimmer of "organic" interest is swept with legislative success into non-economic provinces. But let us again study Pigou as the careful theorist.

Pigou made a study supplementary to the Economics of Welfare in a volume on Industrial Fluctuations, (1927, revised 1929). Here we find a more technical analysis of the considerations just outlined. "Real" wage rates should be "plastic" i.e. should move up and down according to changing supply and demand. It is irrelevant, asserts Pigou, to claim that the fluctuation of wage rates in response to the price determinations of supply and demand is "a veiled device for exploiting wage-earners in the interests of the employing class".[1] In good times, "real" wages are maintainable by a lowered money rate of wages i.e. the greater buying power of the dollar enables a fewer number of dollars to achieve the standard of living formerly held by a relatively greater number of dollars.

> But a wage system plastic in the degree we are here contemplating would, on occasions, involve rates of wages per man so low as to be out of harmony with the moral sense of the time and incompatible with our social structure; rates of wages, for example, below the rate of benefit paid from the Unemployment Insurance Fund to workpeople wholly unemployed. Plainly, as things are, a system permitting wage-cuts of that magnitude must be ruled out of court as, in a broad sense, anti-social.[2] (Italics added)

Pigou here reveals, at least, the conventional ethical lim-

1 A. C. Pigou, Industrial Fluctuations, 307.

2 Ibid., 310.

its of a rigorous competitive economics. The de facto moral sense of the community (i.e. the recognized and operative social values) is fundamentally a rigid structure which determines the lower limit of wages. Theoretically, Pigou plays with the extreme notion of wage plasticity e.g. in bad times workers should receive "negative wages" i.e. should pay the employer for the privilege of working. This is, however, not as fantastic, according to Pigou, as it appears prima facie; both employer and employee are (in our competitive system) dependent on a given profit and loss situation. "If" the employee built up a reserve fund from his earnings in good times (which Pigou recognizes he does not--or cannot?) then, in bad times, when the worker is actually producing no return for the employer, consistent profit and loss economics might theoretically call for a return of previous wages. The use of this argument is mainly to elucidate the conditions of full and continuous employment under the fluctuations of the price system. Plasticity means, when thought out to the bitter end, this complete identification of employer and employee in accepting the fruits and hard places of industrial life. Anything short of this thoroughgoing plasticity of wage-rates causes a condition of unemployment in a competitive system.

A more practicable line of argument, perhaps, is arrived at when Pigou points out the "mutual fears" that characterize the relations of employer and employee and cause wage "rigidity". Employers refuse (argues Pigou) to raise wages in prosperous times out of fear that they cannot be lowered in times of stress; employees refuse to take cuts in times of negligible profits out of fear that they will not recoup the loss when business is active. Here, surely, says Pigou, the facts point a need of a mutual good-will and identification of interests.[1] This leads, in the last analysis, to the values and uses of collective bargaining.

> Machinery for collective bargaining may be set up, and, partly as cause, partly as effect of this, a spirit of good-will and accomodation may be engendered. In representative meetings of employers and employed not only mechanical indices of prices and so on, *but all considerations relevant to wages, may be periodically reviewed in a whole-hearted effort to secure a reasonable settlement.* Where arrangements of this kind exist each side will be ready to make concessions if the conditions seem to call for them, confident that the other side, in converse circumstances, will do likewise. Wage-rates will be rendered less rigid, the amplitude of industrial fluctuations associated with given variations in demand will be *pro tanto* reduced, and economic welfare correspondingly augmented.[2] (Italics added)

What are we justified in concluding about the ethical criterion apparently assumed as valid by Pigou--in wage *theory*? First, the desire to bring rich and poor into closer unity is implicit throughout, and frequently a controlling factor. As a rigid deductive theorist Pigou tends to reach his ethical result by freeing the price system of detailed hindrances. But even conventional ethical habits serve to impede the fully perfect oscillation of labor-price. However, the conventional social sense should not be overcome;

1 A. C. Pigou, *Industrial Fluctuations*, 311.

2 *Ibid.*, 313.

such a perfection of the price system would be "contrary to fact". One fundamental postulate of Pigou's attitude toward the economic system is undoubtedly that interference should be gauged to free the price system--make it plastic--in so far as the social sense, habits and institutions allow. Thus will "social improvement" be helped; thus will economic welfare (the national dividend) be increased; and thus will general welfare (social well-being) be enhanced. Thus, technical economics clearly stresses the investigation of "qualitative" devices as nearly allied to "free quantitative" results as possible. For Pigou, at times, the unimpeded rules of the price game, will achieve the practicable maximum of social welfare. This view assumes that the employers and employees are financially competent (i.e. intelligent in an accounting sense) and industrially efficient. This outlook is akin to the theoretical laissez-faire of Clark. This portion of the position is apparently hedonistic individualism. Each buyer and seller on the wage market is an economic calculator--in large part. But Pigou cautiously qualifies this competitive mechanics of the price system from the "biological" standpoint and, it appears, is less rigorous than the mature Clark. Pigou derived a great deal from Alfred Marshall, whom we shall study later; like Marshall, he tends to broaden the economic motives to include more than the pecuniary. He does not appear to go as far as his master, however. As we have seen, both employers and employees have mutual interests which center on the workings of labor-price in the market. It is to their mutual advantage to "get-together" amicably; self-interest is furthered by taking a total industrial accounting view--a long-range profit and loss view. But Pigou is also theoretically interested in the social angle e.g. wage policies should be considered according to their effect on the national income; this, in turn, is fundamentally justified, since the size (and distribution) of the national income are economic contributors to non-economic social well-being. Pigou apparently takes the competitive price-system for granted; economics, for him, is, perhaps, mainly a theory of price causes. Yet, his prologue is the ethical criterion of quantitative (and so qualitative) social well-being. Though one basic postulate is that the free working of the price system (in so far as compatible with the established social-ethical conventions) is the desideratum of all economic policy, we are justified in asserting an immanent ethical qualification Of course, Pigou speaks decisively, concerning the desirable education of workers to the end of a bettered standard of living. Yet he comes close, at times, to saying (in technical wage theory) that the standard of living determines wages; however, his preoccupation with the free mechanics of the price system apparently minimizes the force of this "biological" stand in the last analysis. When this "biological" reasoning is at the front, ethical interest is obviously more than a benediction, or a prayer, or a quantitative causal expectancy. Here, for the moment, an immanent theoretical interest in economic social direction is discernible. For the most part, however, Pigou clearly conceives the economic wage system as a price institution that inevitably works for social well-being--if demand and supply are unimpeded by hindrances, frictions and contaminations. His analysis proceeds (for the most part) deductively (assuming "property" and the free working of the price system)--introducing an element or two of "friction" at a time. Thus, for example, labor price is a function of supply and demand, which gives the worker <u>what he is worth</u> under given market conditions. If the supply of available workers is large, due e.g. to immigration, the labor price tends to be lowered. Artificial protection of the wage-earner under such conditions is economically unsound--though the "social sense" may demand a transient palliative. "In the long run", the efficiency of workers must fit the industrial price mechanism, to the end that wages are no more (and no less) than the free determinations of demand and supply. "In the long run", wages will support the requisite industrial efficiency. "<u>This must be so</u>", for the industrial system pays as it goes for values received--according to the conditions of labor demand and supply. Yet, for both employer and employee, it is sound price economics to speak of "my" industry. The advantages and disadvantages of price determinations should be shared with far-sighted identification of interests. Here is a narrow social ethics of the wage bargain that is sound economic analysis, according to Pigou.

Here is a narrow form of industrial altruism resulting from insight into price fluctuations; its appeal is grounded on long-range economic self-interest, for if followed by the industrial partners (employer and employee) it would lead to the most advantageous adjustment of wage fluctuations.

VI

A. MARSHALL

In 1881, nine years before the famous Principles, Alfred and Mary Paley Marshall jointly issued a volume entitled The Economics of Industry. It was first conceived as a very elementary treatment of the "affairs of producers, both employers and workmen", but was revised from a more advanced standpoint before publication. The previous generation had left a theory of wages which made "too great pretensions to finality"; but inquiry "tended to vindicate it". A brief ethical study of this early theory of wages will afford a fruitful introduction to Marshall's later wage analysis. It is unnecessary for us to pause to acclaim the recognized eminence of Alfred Marshall in economic theory. A great, loyal worker in the deductive tradition, it is eloquent throughout his lucid pages that a whole man, of far-reaching ethical interests, speaks with genuine integrity.

Assuming the expository propriety of refering to the joint authors as "Marshall", we shall first sketch rapidly an essential background. Marshall is setting out to refine the wage doctrines (among others) of J. S. Mill. The point of departure is that wages are determined by certain relations of demand and supply; cost of production is the chief cause that determines supply. It will be necessary to return to this cost theory of wages in a moment but, first, Marshall's assumption of "free competition" is of great relevant significance. It seems clearly advisable to quote at length.

> A man competes freely when he is pursuing a course, which without entering into any combination with others, he has deliberately selected as that which is likely to be of the greatest material advantage to himself and his family. He is not supposed to be selfish: in fact the normal supply of all grades of industry, except perhaps the lowest, depends on the unselfish sacrifice by parents of their own pleasures for the benefit of their children. But he is supposed to be consulting his own material advantage and that of his family to the comparitive neglect of the welfare of others. If everyone always found his greatest happiness in trying to do that which was best for others, the world would have no theory of normal values as it is described in this volume: some such communism as that which prevailed among the early Christians would be the basis of economic theory. But in this world, as it is, the chief active principle in business is the desire of each man to promote the material interests of himself and his family. Normal results in economics are therefore those which would be brought about in the long run by this active principle, if it had time to overcome--as it necessarily would in sufficient time--custom, inertness, ignorance, and all the other passive elements which make up economic friction.[1] (Italics added)

Thus the narrowly selfish "economic man" becomes a "family man". This is an important development; the theoretical door is apparently opened to the de facto ethical motives of employers and employees. If actual ethical motivation changes fundamentally, the problem of the revision of economic theory is apparently raised for Marshall.

The cost wage theory in this early book repudiates the conception of the wage fund theory, in so far as it rests on the idea that the fund is "set aside" in a static sense. In Marshall's view the produce of land, capital and industry,

1 A. and M. P. Marshall, The Economics of Industry, "preface". The virtual hedonism of the italicized passages is apparent.

exclusive of rent and taxes, creates an "earnings-and-interest fund". Interest remunerates abstinence; earnings remunerate bodily or mental work.

The normal wages of a trade are therefore determined by the relation in which its wages (or more strictly, its net advantages), must stand to those of other trades in order that the supply of labour in it may be kept up, and this depends on the difficulty of the work to be done on it, on the expensiveness of the general and special education, and on the natural qualities, physical, mental and moral, required in it. Trades in the same industrial grade generally require an equally difficult and expensive education, and have equal wages. The lower the grade of a skilled occupation, the higher is the ratio which its wages bear to the expenses of preparing for it.[1]

Competition of supply and competition of demand (together with competition of supply and demand) interact with wage rates to keep wages near the normal level; they are then said to be "in equilibrium". Wages thus revolve around the "Standard of Comfort" to which workers "are accustomed".

The Standard of Comfort is not in fact rigidly fixed. But yet it is, at any place and time, so nearly fixed, and does exercise so great an influence on the growth of population, that the wages which afford the means of maintaining this standard may fairly be called the normal wages of unskilled labour there and then.----A rise in wages caused by an increased demand for labour will be temporary, unless it lead to a rise in the Standard of Comfort; in which case it will be permanent, and normal wages will be raised.[2]

It is not necessary to follow the technical course of this early cost theory of wages further. Enough has been shown to reveal the central place in it of the quality of living required by the average wage-earner. The "good" (efficient) worker's life must be sustained by the requisite

1 A. and M. P. Marshall, The Economics of Industry, 131.

2 Ibid., 130.

wage and other advantages of his work. According to Marshall, the economist should reflect in his wage theory _the effective ethical motivation of a given industrial relationship_. The ethical criterion of this early wage analysis is apparently, therefore, the "customary" ethical criterion found in the industrial context studied. We shall follow this tentative lead closely in Marshall's later analysis.

The preface to the first edition of Marshall's _Principles of Economics_ contains the following paragraph. Its clearly relevant value makes apology for lengthy quotation unnecessary.

> But ethical forces are among those of which the economist has to take account. Attempts have indeed been made to construct an abstract science with regard to the actions of an "economic man", who is under no ethical influences and who pursues pecuniary gain warily and energetically, but mechanically and selfishly. But they have not been successful, nor even thoroughly carried out; for they have never really treated the economic man as perfectly selfish. No one could be relied on better than the economic man to endure toil and sacrifice with the unselfish desire to make provision for his family; and his normal motives have always been tacitly assumed to include the family affections. _But if these motives are included, why not also all other altruistic motives, the action of which in so far uniform in any class at any time and place, that it can be reduced to a general rule? There seems to be no good reason against including them:_ and in the present book normal action is taken to be that which may be expected, under certain conditions, from the members of an industrial group; and no attempt is made to exclude the influence of any motives, the action of which is regular, merely because they are altruistic. If the book has any special character of its own, that may perhaps be said to lie in the prominence which it gives to this and other applications of the principle of continuity.[1] (Italics added)

[1] A. Marshall, _Principles of Economics_, XIV.

In wage theory the principle of continuity means, for one thing, that pure competition is an unwarranted assumption. A worker e.g. does not know everything about the market for his labor--and the rigid assumption of free competition implied this knowledge. Marshall conceives his contribution to wage theory to be in this realm of realistic conditioning of the rigid edges of traditional theory. More particularly, he seeks, as before, to render more exact, more complete and more homogeneous the doctrines of J. S. Mill.

To begin with, the general wage principle is that the "wages of any worker--tend to equal the net product of his labour".[1] Net products depend on "marginal uses", which are, in turn, governed by the relations of demand and supply. The loss of the marginal worker would result in a decrease of the net output about equal to the wages of that marginal worker. This theory employs the notion of "increments" of work of the same standard, in arriving at a marginal theory of wages.[2] We shall confine our further exposition to the character of the ethical criterion involved in this wage analysis.

The economic issue for Marshall is: what payment will be required to produce an adequate supply of labor of any grade? This payment (he reasons) will bear a close relation

1 A. Marshall, Principles of Economics, 538.

2 Marshall was a "marginal" pioneer; Pigou carries on. Contrast Clark's "specific" adaptation.

to the education required; and the physical, mental and mor-
al characters which must be sustained. In working out de-
ductive principles, which define the tendencies of wage pay-
ments, the economist regards man inductively "as he is"--
"a man of flesh and blood". This man "is largely influenced
by egoistic motives in his business life"; and he is "nei-
ther above vanity and recklessness, nor below delight in do-
ing his work well for its own sake, or in sacrificing him-
self for the good of his family, his neighbors, or his coun-
try; a man who is not below the love of a virtuous life for
its own sake". But economists are "concerned chiefly with
those aspects of life in which the action of motive is so
regular that it can be predicted, and the estimate of motor-
forces can be verified by results---"; they therefore study
"man's conduct under the influence of motives that are meas-
urable by a money price".[1]

The less then we trouble ourselves with scholastic in-
quiries as to whether a certain consideration comes within
the scope of economics, the better. If the matter is impor-
tant let us take account of it as far as we can. If it is
one as to which there exist divergent opinions, such as can-
not be brought to the test of exact and well-ascertained
knowledge; if it is one on which the general machinery of
economic analysis and reasoning cannot get any grip, then
let us leave it aside in our purely economic studies. But
let us do so simply because the attempt to include it would
lessen the certainty and the exactness of our economic know-
ledge without any commensurate gain; and remembering always
that some sort of account of it must be taken by our ethical
instincts and our common sense, when they as ultimate arbi-
ters come to apply to practical issues the knowledge ob-
tained and arranged by economics and other sciences.[2]

1 A. Marshall, Principles of Economics, 24-7.

2 Ibid., 27-8.

We should study closely the relations of "efficiency" ("conventional necessaries", the "standard of life") and wages. For Marshall, no simple answer concerning these relations can be true; the facts are too complex. With this proviso, the following tendencies may be noted: 1. An increase of wages (under wholesome conditions) tends to increase the strength (physical, mental and moral) of the rising generation. 2. Under given conditions of knowledge, social and domestic habits, labor tends to have an appropriate supply-price. 3. A relevant level of demand-price will tend to keep labor stationary. 4. A higher price tends to cause labor to increase.[1]

Capital and labor thus cooperate in the production of the national dividend; their earnings measure their respective (marginal) efficiencies. This mutual dependence of capital and labor is very close; "the prosperity of each is bound up with the strength and activity of the other".[2] The flow of the products of labor, aided by capital, determines the flow of wages. Wages must maintain the standard of efficiency set by the marginal producer. <u>This standard is a complex function of the given standards of comfort and life</u>. Since the flow of products is a function of the relevant efficiencies of capital and labor, the wage payment is intimately correlated with the requisites of labor efficiency in the given circumstances.

[1] A. Marshall, <u>Principles of Economics</u>, 532.
[2] <u>Ibid</u>., 532.

Two quotations will serve to clarify the importance of actual ethical interests for Marshall's wage theory.

> The tendency then of economic freedom and enterprise (or, in more common phrase, of competition) to cause everyone's earnings to find their own level, is a tendency to equality of efficiency-earnings in the same district. This tendency will be the stronger, the greater is the mobility of labour, the less strictly specialized it is, the more keenly parents are on the lookout for the most advantageous occupations for their children, the more rapidly they are able to adapt themselves to changes in economic conditions, and lastly the slower and the less violent these changes are.[1]--------any change that awards to the workers of one generation better earnings, together with better opportunities of developing their best qualities, will increase the material and moral advantages which they have the power to offer to their children: while by increasing their own intelligence, wisdom and forethought, such a change will also to some extent increase their willingness to sacrifice their own pleasures for the well-being of their children; though there is much of that willingness now even among the poorest classes, so far as their means and the limits of their knowledge will allow.[2] (Italics added)

Marshall describes the ethical character of his wage analysis as the deduction of sound economic reasons for "economic chivalry" in raising wages.[3] In the long run competitive interactions will tend to correlate higher wages and relevant efficiency; the terms of competition include effective ethical motives.

Marshall included a note on "economics and ethics" in his book Industry and Trade (1919).[4] We shall quote preg-

1 A. Marshall, Principles of Economics, 549.

2 Ibid., 562-3, compare Pigou's "biological adaptation".

3 Ibid., 689.

4 Wage problems are explicitly omitted. Cf. A. Marshall, Industry and Trade, 381.

nant excerpts in order to illustrate a characteristic ethical "open mind" on the level of economic theory. The apparent caution of Clark and Pigou in the premises cannot detain us here.

> To the scientific group belong retrospective statements in the indicative mood, as to the causes which have been (certainly or probably) operative in bringing about past events; and prospective statements, also in the indicative mood, as to the results which may be expected (certainly or probably) to follow from the action of specified causes.----On the other hand, expressions of sentiment or desire in the optative mood, as to the relative claims of different social aims, must necessarily rest in the main on the personal authority of individuals.-----Again, it may be suggested that, though the rigid rights of private property, which prevail under the present social order, may justly claim to have done a great and necessary work; yet human nature has now so far developed, that social benefit would result from some softening of these rights in such ways as would promote the more equal distribution of wealth. Now such a proposal offers scope for turning to account the stores of knowledge and scientific apparatus, that have been accumulated by economic science; and therefore there is a certain obvious convenience and appropriateness in its being discussed from the special point of view of the economist.----Economic studies are not to be limited to matters, which are amenable to strictly scientific treatment.[1]

What, then, is the ethical criterion apparently assumed as valid by Marshall in wage theory? The <u>de facto</u> and effective ethics of employers and employees is apparently a central factor. It seems clear that (for Marshall) the marginal wage bargain, which sets the class wage rate, is consummated in a conventional ethical context of technical importance to the theory. In so far as either employer or employee gains an advantage at the other's expense, the tendency to a normal equilibrium of supply and demand will, in

[1] A. Marshall, <u>Industry and Trade</u>, 67-6.

the long run, tend to bring the wage back to the normal (marginal) rate i.e. to the level of an appropriate standard of living. The doctrine of "equal pay for equal efficiencies" thus contains an essential ethical meaning. The flexible, realistic, relative, structure of this customary ethical criterion is apparently assumed as valid in Marshall's wage analyses. Whatever human interests may be counted upon in a particular context of wage bargains, to determine efficiency, will in the long run be influential in determining the wage level. But, furthermore, the cycle of interaction of a desirable standard of living and an improvable efficiency constitutes the ethical principle of growth of Marshall's wage theory.

In stressing the evolutionary structure of Marshall's ethical criterion, we deny no attribution of virtual hedonism to the "family man". It has seemed more fundamental to emphasize the possible ethical breadth of Marshall's wage theory--on its own terms.

Deeper still, perhaps, is the implicit moral zeal--almost religious--of Marshall's attitude. His human concern (e.g. for the "coming generation") evidences a vigorous ethical interest, which makes "ethical custom" creative and prospective--not alone mechanical and retrospective.[1] Here

1 Cf. J. M. Keynes, "Alfred Marshall, 1842-1924" in Memorials of Alfred Marshall, 6-12, Macmillan, 1925. "A missionary he remained all his life---"(7). "The second self sought knowledge for its own sake; the first self subordinated abstract aims to the need for practical advancement". (12)

elsewhere in these studies) it appears that the ethical erion in wage theory is, in the last analysis, the characistic human interest of the theorist, which _must_ be ght to bear on wage problems.

VII

K. MARX

In Karl Marx we find the socialistic leanings of Hobson carried, apparently, to revolutionary proportions; and the institutional investigations of Mitchell and Veblen seem to achieve the heights of metaphysical necessity. The basic presuppositions of economists like Clark, Marshall and Pigou are clearly challenged. Indeed, in so far as the economists we have so far studied are inclined to reforms within the orbit of "capitalistic rights", their basic positions are attacked. But wider reflections must be held in abeyance in this essay as we travel swiftly to the character of Marx's ethical criterion in wage analysis.

That an ethical position does animate Marx's elaborate economic analysis there can be no doubt. The Hobsonian dictum that "economics is ethics" receives almost cosmic emphasis. It might. indeed, be possible to sum up the rich and scholarly economic erudition of Marx as an "ethics of labor", but we shy at unnecessary dogmatism. We only seek preparatory, then specific, contextual evidence of the ethical criterion operative in Marxian wage theory, as such.

It would be the gravest of misapprehensions to view the Marxian ethical position as an over-night, wholesale panacea. His "revolutionary" ethical character is suggested in the following passages from The Criticism of the Gotha Program.

But these shortcomings are unavoidable in the first phase of communist society after a long and painful travail. Right can never be on a higher level than the economic state of society and the stage of social civilization conditioned by it.----In a higher phase of communist society, after the enslaving subordination of the individual to the division of labor shall have disappeared, and with it the antagonism between intellectual and manual labor, after labor has become not only a means of life but also the primary necessity of life; when, with the development of the individual in every sense, the productive forces also increase and all the springs of collective wealth flow with abundance--only then can the limited horizon of bourgeois right be left behind entirely and society inscribe upon its banner: 'From each according to his abilities, to each according to his needs'![1]

According to Marx, the slow transition to a communist society is a study in the dialectic of history, an understanding of the inevitable genesis of social institutions. Some contemporary followers of Marx discount his framework of German idealism and throw his economic ethics into instrumentalist terminology.[2] Perhaps the ethical criterion operative in Marx's analysis of capitalist wage theory may (somewhat) be dissociated from his metaphysics.

Before making our wage inquiry, we must distinguish the pervasive character of Marx's "labor theory of value" from his more limited "theory of capitalist wages". We shall only treat the former as it enters into the latter, more restricted consideration. For, as elsewhere, we do not undertake a broader view of economic theory than arises in wage analysis; and we further compress our attention to wage theory in terms of relevant ethical attractiveness.

Marx's "labor theory of value" is warp and woof of his

[1] Karl Marx. Selections by Max Eastman, 2-7.

[2] Ibid., Cf. "Introduction".

deductive architecture. It is at once an economic and ethical theme that enters into the being of every part of his system; and into the total meaning of his theoretical and practical position. We cannot help, then, but see this postulate at work in the "theory of capitalist wages", for it is the elaborated premise of the entire system. Stated as a "self-evident" principle, the "labor theory of value" claims that labor (and time) constitute the full value of economic products. Contrary to orthodox economists, the position is taken that the "other" factors of production are determined by labor (and time). This premise purports to be at once explanatory and decisively critical of the "capitalistic phase of exchange". The inherent defect of the capitalist regime, on this view, is the inevitable prostitution of residual surpluses which labor "values in exchange" make possible. Capitalist exchange cannot help but pile up enormous wealth in a few hands, since the exclusive possessors of the means of production (determined by past labor) find themselves the fortunate recipients of the "profits" which the exploitative scheme of capitalistic exchange entails. This bare reference to the exhaustive implications of the "labor theory of value" must suffice, for we turn at once to the narrower ethical features of the wage-bargain.

Assuming that it is understood how the value of commodities is constituted solely by the human labor contained in them, we are, first, to consider Marx's analysis of the purchase and sale of labor power. The general problem is to discover how it is possible for the employer to obtain from his commodities a greater value than that invested by him in them.[1] To begin with, value is created by <u>socially necessary labor</u>.[2] "Value", here, means values in use for others i.e. social values in use. "Socially necessary" means the expenditure of such working time as it required for producing a value in use under existing normal conditions of production and with the average amount of skill and intensity prevalent at the time.[3] Now, in order to produce a commodity, certain creations of past labor are subjected to newly performed labor. "Wages" are paid by the employer for the labor "performed". But, is the value which has been newly created by the work necessarily identical with the value paid by the employer in the shape of wages? The following argument aims to show that the value paid in wages (value in exchange) is less than the <u>value</u> created by the work. Here we are to find, according to Marx, the sole origin of surplus-value; surplus is (it seems) peculiar to the capitalistic wage-bargain and is not a character (as with Hobson) of bargains of a wide variety of alignments.[4]

[1] K. Marx, Capital, <u>A Critique of Political Economy</u>, (Translation by Eden and Cedar Paul), 169-177.

[2] <u>Ibid</u>., 576-580.

[3] <u>Ibid</u>., 190-191.

[4] <u>Ibid</u>., 177-193.

But it is true, agrees Marx, that in the normal case the capitalist employer pays the full value (in exchange) of what he purchases for his purposes. Why is this true? The capitalist purchases the workers "faculty" or "power of working". This power is offered on the market by a "free person" as a commodity (i.e. an external object, which by reason of its qualities satisfies some sort of human want).[1] Both prospective employer and employee meet as proprietors of commodities with equal rights i.e. as legally equal persons. The labor-power commodity is for sale for a specified length of time; but why? The worker has no commodities for sale in which his labor is already incorporated. The productive conditions are such that he owns none of the means of production and has only his "living body" to offer during so much working time. The worker is likewise in need of the bare elements of subsistence; he is "free", therefore, from everything necessary to utilise his labour power. But this productive condition is not a "natural" one (for Marx) nor indeed a social one, in the sense of being common to all periods of history. It is the result of historical development; the product of numerous economic revolutions i.e. the disappearance of a number of older forms of social production.[2]

Before the questions just raised may be given more ade-

[1] K. Marx, Capital, A Critique of Political Economy, 3-58.

[2] Ibid., 353-390.

quate attention, we should pause to stress (with Marx) how the value of labor-power is determined--substantially. Like other commodities, labor-power is valued by the working-time necessary for its production (or re-production). A peculiarity of labor-power, however, is that it is a vital capacity; therefore, the worker must have, at least, necessaries of existence. In the last analysis, then, the (efficient) working-time required for the production of adequate necessaries (appropriate sustenance) is the value of the given labor-power. The more elementary core of this position may be seen in the following passage.

> The labour process, resolved into its simple elementary factors, is, as we have seen purposive activity carried on for the production of use-values, for the fitting of natural substances to human wants; it is the general condition requisite for effecting an exchange of matter between man and nature; it is the condition perennially imposed by nature upon human life, and is therefore independent of the forms of social life--or, rather, is common to all social forms.------When we study the labour process, it does not itself tell us under what conditions the process is carried on: Whether under the lash of the overseer of slaves, or under the sharp eyes of the capitalist; whether a Cincinnatus is conducting the labour process by tilling his little farm, or whether a savage is slaughtering a wild beast with stones.[1]

We are now, perhaps, in a better position to face the modern "wage" institution. The central interest (for Marx) is ethical i.e. to discover why exploitation is possible under the capitalist "wage" system. We may introduce the relevant technical argument in Marx's language.

In the surface aspect of bourgeois society, the wor-

1 K. Marx, Capital, 177. Compare Clark's "primitive" argument.

ker's wages appear to be the price of labour, a definite amount of money paid for a definite amount of labour. People talk about the value of the labour, and say that the monetary expression of that value is the necessary or natural price of the labour. People speak, also, of the market price of labour, as a price which fluctuates on either side of its necessary price.[1]

Here Marx suggests the "fallacious" wage theory which he seeks to correct.

The pertinent fact is that the prospective worker is willing to sell his labor-power at its value i.e. <u>its value in use to the worker</u>; and the prospective employer is willing, likewise, to pay <u>this</u> value. Thus the wage-bargain is struck on a legally free market. But, the employee advances the value in use of his labor-power <u>to the employer</u> and receives "wages" i.e. the value in use of the labor power <u>to the employee</u>. And, just here, we are introduced to the ethical center of Marx's theory of capitalist wages. It is irrelevant for us to enter its technical subtleties. A partial development is appropriate, however, in order to characterize the ethical criterion apparently assumed as valid by Marx.

The capitalist "wage" institution is grounded on <u>values in exchange</u> which, in turn, depend on "property" and "free competition". The capitalist wage contract, therefore, inevitably encourages a differential gain (surplus) in favor of the employer. But, has not Marx admitted that the employee gets all he seeks i.e. the value of his work--to him-

1 K. Marx, <u>Capital</u>, 583.

self? Yes (agrees Marx) the capitalist scheme of awarding values in exchange does give the employee his full self-estimated value of his working faculty. The critical point, however, is that the quantitative status of the value in exchange does not preclude the employer from realizing the full qualitative value in use of the labor power. To be sure, the wage bargain is completed by giving the worker his full value in use of the wages--estimated from the standpoint of the necessary qualitative needs of himself and his family. Yet, more to the point, what does the employer get? He gets (at least) the labor-power and working time necessary to produce the quantitative equivalent of the wages given. But does he inevitably get more? Yes. Why?

To begin with, the employee works under the control of the capitalist. During the labor process he works, without freedom and independence, upon the means of production owned by the capitalist. The products of the worker (owned by the capitalist) are for sale i.e. so far as the capitalist is concerned the products are values in exchange. But the capitalist (*qua* capitalist) is bent on receiving more than his expenditures on the means of production (determined by past labor) and the wages he pays; that is, the capitalist is bent on receiving "surplus-value". *If* the employee gets "value received" for his efforts, is not this "surplus value" legitimate "profit"? No, (argues Marx) for surplus value depends on the creation of values in use designed for exchange, by which less than an equivalent exchange value is parted with. Now, since the value of every commodity is determined by the quantity of labor contained in it, the capitalist must realize a surplus-value because the worker has produced it.[1]

> Since the value of labour is only an irrational expression for the value of labour power, it is self-evident that the value of the labour must invariably be less than the value it creates, for the capitalist always arranges that labour power shall continue in operation for a longer time than is necessary for the reproduction of its own value. In the foregoing example, the value of labour power operating for 12 hours is 3s., this being a value for whose reproduction labour must operate during 6 hours. The value created, however, is 6s., inasmuch as the labour power operates during 12 hours, and the value created is dependent, not upon the value of the labour power itself, but upon the duration of its functioning. Thus we arrive at the result, which at the first glance seems absurd, that labour which creates a value of 6s. has itself a value of 3s.[2]

Thus, value of the labor power to the worker (in order to keep him alive) and the use of that power in the productive process are two different things. The employer made the wage bargain because he recognized the peculiar value in use of the labor power for his exchange purposes. Labor power is the source of value, and of value greater than it possesses itself. The employer follows the laws of exchange i.e. he pays the exchange value of labor power and sells its value in use. Of course, it is fortunate for the employer that the labor power only costs a portion of the values in use made in a full working day. But this "good fortune" is inherent in the capitalist wage system.

[1] K. Marx, Capital, 583.

[2] Ibid., 587-588.

The capitalist process of production thus reproduces, of its own accord, the divorce of labour power from the means of labour. It reproduces and eternalises, therewith, the conditions for the exploitation of the worker. It perpetually forces the worker to sell his labour power that he may live, while perpetually enabling the capitalist to purchase labour power that he may enrich himself.[1]

- Briefly, the process of creating surplus value is the continuation of the creation of exchange value beyond a definite point. The unequal advantages of the employer and employee enable the employer to force the employee to work on beyond the point at which <u>his</u> (the employee's) cost of production is created. The excess ("unpaid" labor power) time is devoted to the creation of values in use which the employer will sell. The result is surplus value <u>owned</u> by the employer, which the <u>unpaid</u> labor power created.

Now let us turn to consider the capitalist. He wants to get as much labour as possible for as little money as possible. The only thing, therefore, which interests him in practice, is the difference between the price of labour power and the value which its function creates. But he tries to buy all commodities as cheaply as possible, and invariably explains his profit to himself as due simply to buying cheap and selling dear, to buying a thing below its value and selling it above its value. He therefore fails to realise that, if such a thing as the value of labour really existed, and he really paid this value, no capital could exist, for his money could not be transformed into capital.[2]

Viewing this brief exposition of Marx's criticism of the capitalistic scheme of wage payment, what are we justified in concluding as to the ethical criterion apparently assumed as valid? Apparently, a relevant reply should point

[1] K. Marx, <u>Capital</u>, 634.

[2] <u>Ibid</u>., 590.

to Marx's conception of the substantial value of labor power. The capitalist wage institution (for Marx) is ethically unsound. An ethical return to the worker is the full creation of his labor-power--not just the portion of it which he is forced to take by a contractual process. The ethical view here (for Marx) is not that the "employee" is over-worked--but that the fruits of his work are systematically diverted to the favored owners of the "rights" to produce. How can workers--who create all values--enjoy the results (and stimulation) of creative work when their values (above bare cost of production) are pyramided, by capitalistic accumulation, in the hands of "employers"? Back of the "wage" phenomenon, is the elemental relation of production for consumption. Here is the primitive ethical criterion for a re-ordered institution i.e. to each according to his needs, from each according to his powers.

To do fair justice to Marx's ethical position would require an exposition of his entire economic system. Suffice it to conclude, that (for Marx) his wage analysis points beyond to the inevitable obliteration of the wage category--a slow institutional evolution, whereby virtual "wage slavery" will be transcended. The new order of communism is apparently an ethical-economic process and ideal--the full structure of Marx's ethical criterion--into which the restricted wage analysis of this study need not go.

The capitalist method of appropriation proceeding out of the capitalist method of production, and consequently capitalist private property, is the first negation of individual private property based upon individual labour. But, with the inexorability of a law of nature, capitalist production begets its own negation. It is a negation of a negation. This second negation does not reestablish private property, but it does reestablish individual property upon the basis of the acquisitions of the capitalist era; i.e. *on cooperation and the common ownership of the land and of the means of production (which labour itself produces)*.[1] (Italics added).

[1] K. Marx, *Capital*, 846.

VIII

A GENERIC CONCLUSION

The autonomous nature of the several brief studies made, and our non-critical attitude, combine to make re-iteration (or further comparison) of the ethical criteria tiresome rather than fruitful.

We began our essay by pointing to the philosophical (or logical) motive of clarification of the ethical character of wage theory. It is appropriate to close with the same emphasis, for this logical effort has determined the course of our analyses. Our studies appear, however, to warrant a generic conclusion, which may be briefly defined by way of a relevant test. We will select at random for scrutiny a facile, and radical, type of repudiation of ethical interest (and criterion) in wage theory.

Founded in 1924, The Halley Stewart Trust is dedicated to economic research. The subject of the 1931 lectures was "The World's Economic Crisis and the Way of Escape". One crucial aspect of the worlds economic crisis is admittedly the wide-spread failure to pay labor to produce. Reflective reading of the theories of wages in these lectures (in the light of our studies) will lead, it is believed, to the generic conviction that theories of wages always include an immanent ethics of wages. It is believed that this immanent human attention is necessary in wage theory and should be explicitly avowed, to the end that the ethical criterion, inevitably invoked by implication, will be given the logical attention it properly deserves.

For example, in the volume just cited, Sir William Beveridge takes the characteristic point of view that wages should be guided by the free play of prices, ethics (on this view) being extraneous to the economic issues.

> The crisis of today represents a failure to manage credit, to avoid alternate inflation and deflation of purchasing power.[1] -------There is here, I believe, an inescapable fatal danger--the danger of mixing control and freedom. We have to decide either to let production be guided by the free play of prices or to plan it socialistically from beginning to end.[2]

But it seems sound to point out that the good of the productive system is promoted (according to Beveridge) by eliminating interferences with the free play of prices. This implies a course of conduct and a relevant human criterion which may properly be called ethical. It should be emphasized that the results of Beveridge's theory of "managed credit" will improve, *ex hypothesi*, the successful working of the productive system e.g. employment. Without further ethical evidence, therefore, it is fair to say that Beveridge's arguments for credit adjustment constitute ethical criteria, for they indicate what should be done in order to put men to work. His emphasis, then, that the "productive machine is driven along by the motive of profit, it is guided by prices" is ethical.

1 W. Beveridge, The World's Economic Crisis, 166.

2 *Ibid.*, 173.

> Liberty is freedom where in the common interest there should be freedom.[1] (Italics added)

In conclusion, Beveridge plays with the plan of guiding production "directly by use", but vindicates capitalism.

> For if the capitalistic plan does not work, at worst we get another crisis like the present, whereas if the socialistic plan does not work we may destroy things of more importance than economic welfare.[2]

Sir Josiah Stamp takes a similar position as to the thoroughly financial nature of relevant problems and remedies.

> The element of profit--*I am not speaking of the ethics of it*, but of the actual mechanism of it--is the mainspring of the expansion of employment in all countries of the world except Russia. That is a fact which we may as well recognize whether we like it or not. *Everything that touches profit has an important effect on the whole community*. It is not merely a question of social justice. Anything which makes it more difficult to bring together these elements has an effect on the speed and the mechanism and the adjustment of the machine which provides employment".[3] (Italics added)

Then follows a discussion of monetary wage reforms.

We consider, as in the case of Beveridge, that this fiscal point of view is the *operative* ethical criterion, even where, as here, the ethical interest is explicitly discounted. The principles of monetary policy which fix the machine that gives employment (and economic welfare) are normative criteria of "good" economic conduct *under the terms of the monetary theory*. For the terms of the monetary

1 W. Beveridge, *The World's Economic Crisis*, 172.

2 *Ibid*., 185.

3 J. Stamp, *The World's Economic Crisis*, 44.

theory of the typical writers we are considering, indicate desirable financial conduct (where alternative courses of action are possible) that is preferred in order to achieve a posited goal of economic welfare. These are theories of desirable practical action which invoke criteria, or standards of preference, for one line of human conduct--rather than another. It appears, moreover, that when these economists give up the postulate of the uniformity of nature in wage matters, their theories are evidently practical. For, these theories "select", from a diversity of detail, price "causes" of exchange motives, media and structures--with an interest in "economic welfare", an obviously practical and ethical goal, conforming to a conception of a good human situation. It is, indeed, difficult to see why the ethical interest is not openly avowed and explicitly defined in wage theory as such. Such intellectual honesty, it appears, could in no way vitiate the merit of sound mechanistic analysis, and would certainly clarify the standards of use or value of the economic procedures described. It is not necessary to weigh concepts of "good" and "bad", "desirable" and "undesirable", "right" and "wrong" explicitly in order to imply a working hypothesis of the direction of the "good". Do these writers seek methods of economic activity completely neutral to a desired state of human welfare? Obviously not. It is stated that the "machine", when properly working, will give "employment"--and that "employment" (determined by efficient "machine" conditions) is a relevant "community" good? "Everything that touches profit has an important effect on the whole community" asserts Stamp. The profit motive and the competitive "machine" are validated as a working hypothesis. That the validation is in terms "of a fact which we might as well recognize whether we like it or not" reveals a method of assumption. But that which is taken as valid is an industrial system and ethical philosophy which may aptly be described as laissez faire mechanism. That this is a method of exchange for social purposes would, it seems, not be denied; that abstract "method" may be studied for its own sake is, perhaps, partially true; but that the wage method before us is designed for human ends that are implicit in its characteristic fiscal analysis, is a crucial fact. Is it a purely verbal matter to insist that this human reference of fiscal methodology is "ethical"? Use whatever term you like, the essential fact is that "human" exchange welfare, e.g. "employment", is sought. To say that the criteria of industrial efficiency are proper monetary devices is only to absorb, for the time being, the distinctively ethical meaning into the fiscal argument. The theoretical result is, nevertheless, implicitly a character of human economy, apparently assumed as valid. Put another way, we may say that the terms of fiscal wage relations are fundamentally human in their movement and results. "Conduct" viewed as "fiscal conduct" is still conduct. To view the problems of wage control in monetary terms does not purge the subject matter of the ethical element inherent in human adjustment. It is highly appropriate, therefore, to call this inexpugnable human character of adjustment in the realm of wage conduct by the term "ethical".[1] Our studies of this essay appear to validate this generic conclusion.

1 Professor P. A. Schilpp has helpfully called my attention to an article by H. W. Stuart, "The Phases of the Economic Interest" in Creative Intelligence, 282-253, Henry Holt, 1917. The author writes on page 349: "Because so-called economic 'choice' is in reality 'constructive comparison' it must be regarded as essentially ethical in import. Ethics and economic theory, instead of dealing with separate problems of conduct, deal with distinguishable but inseperable stages belonging to the complete analysis of most, if not all, problems". (My italics.)

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